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**Russians Return Debris From South Korean Airliner**  
As Soviet sailors watched Monday, Japanese crewmen hauled to their cutter a crate of wreckage from the South Korean airliner shot down by a Soviet fighter pilot on Sept. 1. Japanese and U.S. diplomats came to Port Novik on Sakhalin Island to receive the debris, which included clothing and documents. Despite a boycott on flights to Russia, travel to the Soviet Union has not been severely reduced. Page 4.

## IMF Finds Agreement On Access Major Nations Break Deadlock

By Hobart Rowen

Washington Post Service

WASHINGTON — The major nations of the International Monetary Fund, including the United States, broke a deadlock early Monday over an American proposal to limit the borrowing access of member nations to the IMF money pool next year and for several years thereafter.

After a daylong deadlock on Sunday, the IMF's Interim Committee agreed to a two-tiered limitation on access by borrowing nations to IMF funds: either 102 percent or 125 percent of annual quotas, the higher figure being allowed countries that have serious balance of payments problems.

This in effect will limit borrowing to no more than is available under the current rules, and was the principal demand of the U.S. Treasury secretary, Donald T. Regan.

But Mr. Regan yielded to the European, Japanese and Canadian members who insisted that a more generous allotment be given to countries with severe balance of payments problems.

Expressing a great sense of relief, the IMF managing director, Jacques de Larosiere, said the compromise would allow the IMF to continue on "a firm basis" and encourage commercial banks to maintain their activities in the Third World.

Willy De Clercq of Belgium, chairman of the IMF Interim Committee, said that the compromise of "a very delicate and complex matter is a very positive one. There are no losers, but the international community is the winner."

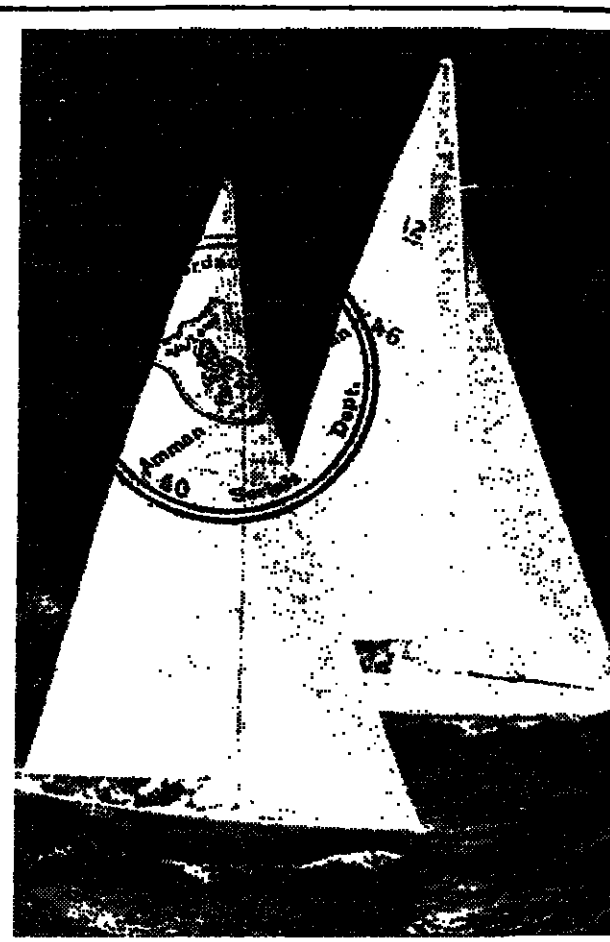
Mr. Regan said he was happy with the agreement. "We achieved our number one objective: 102 percent is now the norm, a ceiling on most IMF 'enlarged access' loans in 1984, with exceptions for small countries."

But Mr. Regan conceded that he failed to achieve comparable limits on so-called Compensatory Financing Facility loans, a special category designed to compensate for sudden losses of earnings of commodity exporters. He said the IMF has made \$3 billion of such loans through August, with the probability that the annual rate would run about \$5 billion.

When India, China, Africa and other large CFF borrowers objected to placing any kind of ceiling on CFF loans, the Interim Committee referred the matter to the IMF Executive Board for decision.

IMF officials said it was important to have reached a compromise, because a continued deadlock would have shaken worldwide confidence in the agency's ability to manage the debt crisis and would have exacerbated the trend of commercial banks' reducing their lending in Third World countries.

Another concession by the United States, in exchange for the 102



**Australia II Wins America's Cup**  
Australia II, at right above, beat Liberty on Monday to win the America's Cup — the first time in the 132-year history of the yachting series that the American entry has lost. Page 19.

## Reagan, at UN, Offers Moscow New Flexibility On Arms Stand

By Steven R. Weisman

New York Times Service

UNITED NATIONS, New York — President Ronald Reagan, calling on the Soviet Union "to reduce the tensions it has heaped on the world in the past few weeks," Monday offered what he described as concessions aimed at advancing the stalled Soviet-American talks on medium-range nuclear missiles in Europe.

Speaking to a packed General Assembly chamber at the opening of debate of this year's session, Mr. Reagan charged that the Russians had violated arms and other agreements in the past, but that the United States was prepared "to be flexible in our approach, indeed, willing to compromise" to win weapons agreements now.

"The door to an agreement is open," the president told the delegates, referring to the medium-range missile talks. "It is time for the Soviet Union to walk through it."

In the principal concession announced Monday, the United States would continue to insist on an equal number of nuclear warheads on U.S. and Soviet medium-range missiles, but Washington would agree not to deploy all of its permitted missile warheads in Europe. The Russians have strongly opposed any deployment of these American missiles in Europe, maintaining that the 162 French and British missiles already in place are adequate protection for the West.

In addition, Mr. Reagan said, the United States was "prepared to be more flexible on the content of the current talks" and to discuss with the Russians the possibility of including ceilings on medium-range bombers capable of carrying nuclear warheads.

Finally, the president said Washington was prepared to accept less than the maximum number of Pershing-2 ballistic missiles as part of an overall agreement to reduce the number of both Pershing-2 and ground-launched cruise missiles.

Current plans call for the United States to deploy 108 Pershing-2 missiles and 464 cruise missiles, starting in December, in West Germany, Italy, Belgium, the Netherlands and Britain. Each of these missiles has one nuclear warhead, but the Russians are known to have greater fears about the Pershing-2s because they can reach Soviet territory only minutes after being launched.

The deployment was authorized by the European allies in 1979 to counter the existence of Soviet medium-range missiles trained on Europe. A senior administration official said Monday that the Russians have 351 SS-20 medium-range missiles, with three warheads each, and

that "almost all potentially threaten Europe."

Talks on these missiles have been dragging on for 18 months, with the United States insisting that there be Soviet-American equality in number of warheads worldwide, and the Russians unwilling to accept deployment of any new missiles on European soil. In the background of the talks has been uncertainty about possible protests in Europe if the missiles are deployed at the end of the year.

Mr. Reagan was warmly applauded at the end of his 23-minute speech, which administration advisers had described in advance as an attempt to "take the high road" after the recent acrimonious exchanges with the Russians. Tensions have grown considerably because of the charges and countercharges surrounding the downing by the Russians of a South Korean airliner on Sept. 1.

Despite a generally conciliatory tone, however, Mr. Reagan did repeat some of his recent harsh criticisms of the Russians, including a reference to the Soviet Union as "an empire" with "subservient nations" and "client governments."

He referred to the Korean airliner incident as having brought "new, unwelcome evidence of brutal disregard for life and truth" by the Russians, as well as "a timely reminder of just how different the Soviet concept of truth and international cooperation is from that of the rest of the world."

"Evidence abounds that we cannot simply assume that agreements

(Continued on Page 2, Col. 6)

## Reagan Says U.S. Is 'Proud' to Be Host of the UN

New York Times Service

NEW YORK — President Ronald Reagan has told foreign leaders and foreign ministers attending the UN General Assembly that the United States was "proud to be the home" of the United Nations and would continue to work there for world peace.

Mr. Reagan's comments at a reception Sunday night were his first about the United Nations since he suggested last week that it might consider moving to Moscow for six months of the year.

Administration aides have said that Mr. Reagan meant no denigration of the United Nations and that he wanted to use his trip to New York City to re-emphasize U.S. support.

Mr. Reagan spent a full day in New York Sunday meeting foreign leaders before a scheduled address to the General Assembly Monday.

## Search Goes On in Ulster For Fugitives From Maze

The Associated Press

BELFAST — Police recaptured two more Irish Republican Army insurgents who escaped from the maximum-security prison at Maze on Sunday, and a search continued Monday for 21 still at large.

"It is a desperately dangerous situation," a senior police officer said. "It is like trying to corner a pack of wolves."

Hundreds of soldiers and police, aided by helicopters and tracking dogs, searched the countryside for the escapees.

Prime Minister Margaret Thatcher, in Ottawa for talks with Canadian officials, said the break-out was "the gravest in our prison history."

James Prior, Britain's secretary for Northern Ireland, ordered a "highest level" search for the 38 men obtained guns and knives to fight their way out of the prison, 12 miles (about 19 kilometers) south of Belfast. Seventeen fugitives have been recaptured.

The two taken into custody Monday were seized in the south of County Down as they headed toward the border with the Irish Republic about 40 miles south of the prison, police said.

A police spokesman said the escaped convicts, including men serving life terms for murders and bombings, stabbed one guard to death and wounded six others, five with knives and one with firearms.

All those who broke out of the prison are members of the IRA's provisional wing.

Sinn Fein, the legal political wing of the Roman Catholic IRA, which seeks an end to British rule of Northern Ireland, sent its congratulations to the fugitives and called them prisoners of war.

"There is a feeling of jubilation in nationalist and republican areas because people realize the British government has no right to imprison anyone in Ireland," Sinn Fein said in a statement.

A Protestant leader, the Rev. Ian Paisley, called for the resignation of Nicholas Scott, the Northern Ireland minister responsible for prisons.

Photographs of the fugitives were issued 14 hours after the break. Among them was Brendan McFarlane, serving life for the murder of five persons in a pub bombing seven years ago. He escaped four years ago but was recaptured.

Mr. McFarlane led the 1981 hunger strike at Maze in which 10 men starved to death in an unsuccessful attempt to gain official recognition as political prisoners. But he did not participate in the fast, in which Bobby Sands, serving 14 years for weapons possession and being a member of the outlawed IRA, was the first to die.

Other escapees include Joseph O'Carroll, serving a life term for killing an Ulster Defense Regiment soldier and said by police to have been the IRA commander in London-derry.

"It was worth a try," one of the recaptured prisoners said with a grin as he was led by a soldier back toward the jail.

Four escapees were recaptured wearing only their undershorts and four others were seized after they swam across a river near the prison.

Police said the break began Sunday when prisoners in one of the eight H-shaped cellblocks produced weapons to overpower guards and the driver of a food delivery truck.

A bomb hoax at the main gate created a diversion while more prisoners piled into the truck, some wearing uniforms taken from captured guards. The guard who was shot had tried to raise the alarm.

At the double main gate of steel and wire mesh, a guard blocked the truck's path with his own car, forcing the prisoners to escape on foot through a side gate.

The guard who later died in the hospital was stabbed in a fight between the fugitives and the guards and soldiers of the Royal Horse Artillery Regiment on duty at the prison.

## Lebanese Prime Minister, Cabinet Quit After Cease-Fire Halts Most Fighting

Compiled by Our Staff From Dispatches

BEIRUT — Prime Minister Shafiq al-Wazzan and his cabinet submitted their resignations Monday, hours after a cease-fire arranged by the United States and Saudi Arabia halted Lebanon's civil war.

Mr. Wazzan, a Sunni Moslem, told reporters after a meeting with President Amin Gemayel that he and the 10-member cabinet had tendered their resignations to clear the way for the "formation of a national unity cabinet to undertake the rebuilding of the homeland."

Mr. Gemayel, a Maronite Christian, said later in a statement that he needed time to decide whether to accept the resignations and asked the Wazzan government to remain in office "until the features of the new era crystallize and the arrangements to usher it in are completed."

Syria and the Lebanese Druze leader, Walid Jumblatt, had demanded the resignation of Mr. Wazzan as a precondition for a ceasefire in the civil war, which pitted Syrian-backed Druze militias and their leftist Lebanese allies against Christian militias and the Lebanese Army.

Mr. Wazzan, who has been sharply criticized both by Syria and at home for failing to push for Moslem rights, announced his offer to quit after a cabinet session at the presidential palace.

Political observers said Mr. Gemayel might be delaying a decision on accepting the resignation while he looked into the possibility of forming a government of national unity.

The Lebanese Army said the cease-fire was generally holding, despite sniping on the mountain frontlines and in the Beirut suburbs and at least one infiltration attempt around the strategic bastion of Souk el-Gharb overlooking the U.S. marine encampment at Beirut International Airport.

Two Lebanese soldiers were shot to death by snipers at the village of Kaifum, two kilometers (about a mile) south of Souk el-Gharb, the army said.

The state-run Beirut Radio reported after nightfall that army positions in the mountain village of Kabr Chamoun were under fire.

U.S. officials say Syria feared clashes with the United States and Israel. Page 2.

made up by the army and opposition factions is also to work out ways to enforce the truce.

A Lebanese government official said the United Nations would be asked to provide 500 observers to help police the cease-fire.

In London, the British Foreign Office said the four nations contributing to the multinational force that has been patrolling Beirut will meet "urgently" in New York to consider what steps to take in view of the truce. Britain, France, Italy and the United States have contingents in the force.

Mr. Gemayel is to call an urgent national reconciliation conference with factional leaders to discuss reshaping Lebanon's political makeup. Opposition leaders see the conference as a chance to end the unwritten law dating from 1943 that divides power among Lebanon's patchwork of sects, with the presidency and some other key posts going to Maronite Christians.

Lebanese officials said Mr. McFarlane and Prime Bandar had proposed that the opening session be held in Riyadh, the Saudi capital, under King Fahd's auspices.

Mr. Gemayel invited observers from Saudi Arabia and Syria to take part in the dialogue to "bring about a comprehensive national reconciliation that will be the permanent foundation of honest coexistence among the members of the Lebanese people, a guarantee for the establishment of state sovereignty over all Lebanese territory and the creation of a balanced government system."

Lebanon's state radio said the conference would include Mr. Jumblatt and two other leaders of his anti-government coalition: Nabih Berri, leader of the Amal militia; former President Camille Chamoun; and Pierre Gemayel, founder of the rightist Christian Phalange Party.

## Manila's Cardinal Plays Dual Role in Resolving Aquino Crisis

By William Chapman

Washington Post Service

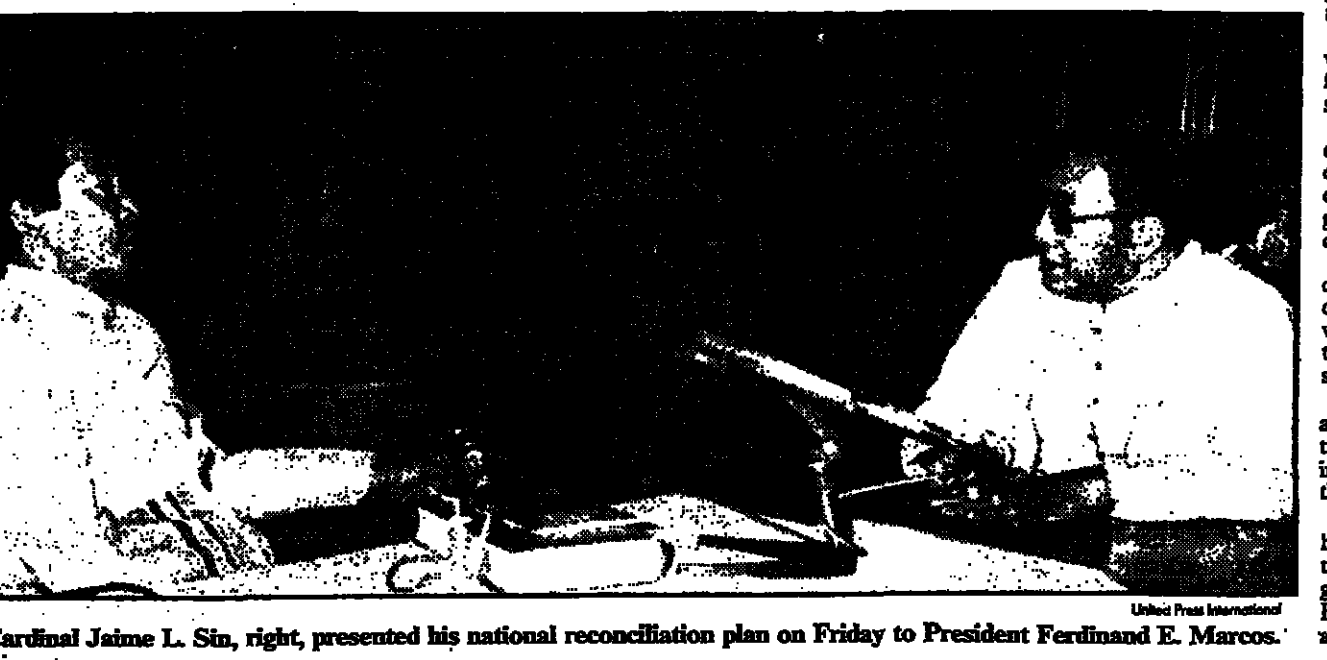
MANILA — Cardinal Jaime L. Sin, who previously made frequent complaints about the rule of President Ferdinand E. Marcos of the Philippines, has moved into a new dual role that casts him as an alternating presidential confidant and critic as he seeks a peaceful reconciliation of opposing forces in this tense country.

On Thursday night, the cardinal's anti-government rhetoric reached a new pitch of abusiveness, Marcos promises to reorganize the commission investigating Aquino's murder. Page 4.

when he called Philippine elections a "travesty" and likened Mr. Marcos' suppression of the media and record of evasiveness to the actions of Nazi officials. Yet on Friday night, he met with Mr. Marcos to offer a national reconciliation plan that is "the last feasible alternative to avoid the violent confrontation and bloody revolution made imminent by the temper of the times," according to a statement released by one of Cardinal Sin's aides.

The cardinal's dual role is one of the strange wonders of Philippine politics, a phenomenon difficult for outsiders to understand. He is at times the church militant scouring the demons of temporal government and at times the benevolent adviser pictured chatting amiably with the smiling president.

Whatever his secret to success, it has made Cardinal Sin a figure of towering importance in a country torn by violence and recriminations. Some regard him as the strongest source of restraint on a government often given to extremes. Since the assassination a month ago of Benigno S. Aquino Jr., an opposition leader, the cardi-



Cardinal Jaime L. Sin, right, presented his national reconciliation plan on Friday to President Ferdinand E. Marcos.

## Computer Gang Got to Heart of Nevada's Thief-Proof Slot Machine and Hit Jackpot

By Wallace Turner

New York Times Service

STATELINE, Nevada — The Econopoulos affair began in the early afternoon of Friday, Aug. 19, when an electronic slot machine at Harrah's Tahoe casino showed a giant jackpot winner.

The sum of \$1.7 million was in the jackpot. It had been built up since January 1982, when the previous winner collected about \$500,000.

The man at the machine when the jackpot-winning line of triple bars appeared was Constantine G. Econopoulos, 34, a Greek immigrant to the United States. He had been working at Harrah's for about a year, and his name was on the list of winners of the machine's previous jackpots.

to defy cheating. Someone had been able to reach the computer chip that was the heart of the slot machine Mr. Econopoulos had been playing and make it produce the winning jackpot.

While Nevada gaming officials are now maintaining strict silence about the case, interviews with the authorities and others in Nevada, Texas and California disclose an intriguing tale of how Mr. Econopoulos, identified by the San Francisco police as a man known to them as Gus the Runt, was recruited by people to play and collect from the rigged machine.

Nevada newspapers have speculated that Mr. Econopoulos is now living in Nevada as a guest of the Nevada Gaming Control Board, because he is the only known witness who could identify others involved in the jackpot scheme that cost Harrah's \$200,000.

The 16 machines tied to Harrah's big jackpot are the products of modern times. Each has its own

electronic controls whose heart is a computer chip. The capacity of the chip is mostly taken up with its instructions for operation. The system was designed over the past decade in an attempt to produce a slot machine that would foil the many ways that thieves found to cheat the old mechanical slots.

The added significance of the Econopoulos affair, according to industry and regulatory sources, is that whoever found the way to reach the computer chip also had the ability to do so without leaving any electronic tracks. Such tracks would cause the casino to refuse payment of the jackpot.

Validity checks began routinely after Mr. Econopoulos hit the jackpot. But little else that followed was routine. The police in San Francisco recognized the 5-foot-2, somewhat grizzled man as a man whose past includes felony convictions in 1958 and 1970 for burglary.

The security staff at Harrah's, nervous about

Gus Econopoulos, sent him off to rest in a room in the hotel, a hotel spokesman said. They checked the machine he was playing. After a while, they gave Mr. Econopoulos four checks, three for \$500,000 each and one for \$200,000. They urged him to remain as their guest.

Two days later, according to Mark Curtis, Harrah's spokesman, Mr. Econopoulos left the hotel suddenly and Harrah's security people lost track of him. On Monday, Aug. 22, Mr. Curtis said, Harrah's told the Nevada Gaming Control Board that it appeared something was wrong with the big slot machine jackpot winner.

Mr. Econopoulos was eventually traced to Houston. Payment was stopped on the three \$500,000 checks, but he had cashed the one for \$200,000.

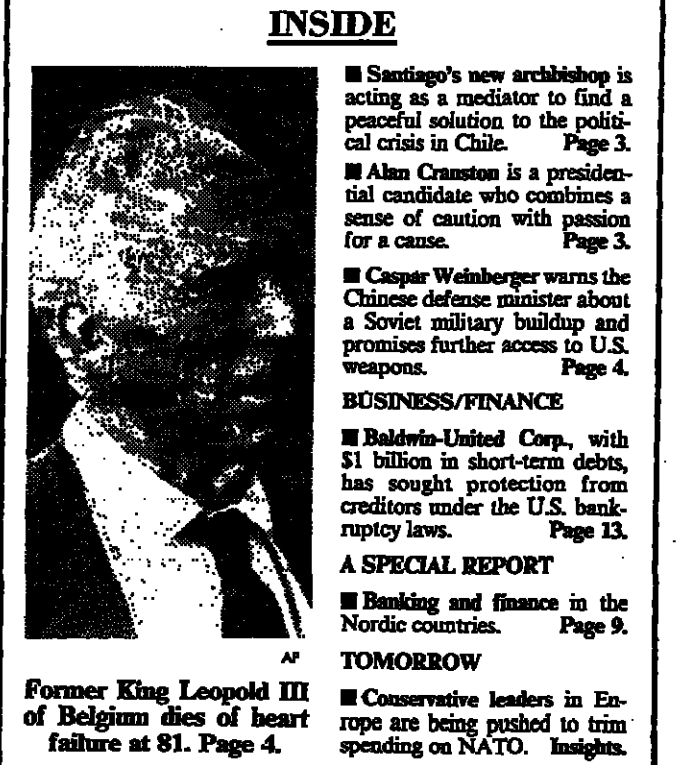
After a series of interviews, he told the agents of the Nevada Gaming Control Board that the jack-

pot had been won by altering the machine's patterns, officials said. He told them that people who had recruited him to play and collect had rigged the machine so the jackpot-winning symbols would appear. Whatever else he said has not been disclosed.

The Econopoulos affair has revealed a serious weakness in Nevada's system of gambling controls. District Attorney Brent Koltvet of Douglas County, where Harrah's Tahoe casino is situated, has said there is not enough evidence for him to prosecute anyone in the jackpot case.

So what is to happen to gangs who steal million-dollar jackpots?

An agreement is implicit between the casino and the players that the eventual winner will be selected by the random action of computer chips. So the means used to beat the machine must be uncovered, understood and met in new designs.



Former King Leopold III of Belgium dies of heart failure at 81. Page 4.

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■ Conservative leaders in Europe are being pushed to trim spending on NATO. Insights.



# U.S. Thinks Syria's Fear of Wider Clashes Prompted Truce

By John M. Goshko

Washington Post Service

WASHINGTON — U.S. officials are crediting the achievement of a Lebanese cease-fire to Syria's realization that it cannot keep agitating the civil war there without increasing its military involvement to the point at which it would risk direct clashes with the United States and possibly provoke a new war with Israel.

Specifically, the officials said, Syria's hopes of winning control in Lebanon through its support of the dissident forces fighting President

Amin Gemayel's government were thwarted by President Ronald Reagan's determination not to remove the U.S. Marines from Beirut and by the unexpectedly strong showing of the Lebanese Army during bitter fighting in the Beirut area.

That the officials continued, has created a military stalemate that President Hafez al-Assad of Syria could not break unless he increased his aid to the Druze militia and other dissident groups by throwing Syrian forces directly into the fighting. But that would mean confrontation with the U.S., British, French and Italian units forming the peacekeeping force in Beirut and, even more threatening to Mr. Assad, would force Israel to consider whether it had to go to war again to prevent Syria from gaining control over Lebanon.

For these reasons, the officials said, the Syrians have apparently decided to put aside the military option, at least for the moment, and try to win greater influence in Lebanese affairs through a process of political negotiation between Mr. Gemayel and the Syrian-backed factions.

Administration officials said that a cease-fire is the necessary first step in carrying out the diplomatic strategy that has been pursued for the past month by Mr. Reagan's special Mideast envoy, Robert C. McFarlane, with the aid of Saudi Arabia's ambassador-designate to the United States, Prince Bandar bin Sultan.

Specifically, that strategy centers on inducing Syria to stop its obstructionist activities inside Lebanon and cooperate in patching to-

gether an accord that will satisfy the political aspirations of the various contending factions, allow Mr. Gemayel to extend his government's authority throughout the country and permit the withdrawal of the Israeli, Syrian and Palestine Liberation Organization forces that are occupying large portions of Lebanon.

Earlier this month, when Israel withdrew its forces from the Chuf mountains to new positions in southern Lebanon, a vicious cycle of new fighting broke out in the Chuf and in Beirut, with the Syrians arming and encouraging the Druze and other groups like the Shiite Muslim militia to attack the Lebanese Army. As one U.S. official put it, "Assad believed the Gemayel government would fold, and he could just walk down the Damascus-Beirut highway behind his surrogates to take control."

According to U.S. officials, a key element in the Syrian strategy was to instigate attacks on the U.S. Marines in the hope that domestic pressure would force Mr. Reagan to pull them out and rob Mr. Gemayel of U.S. support. But, despite misgivings in Congress over marine casualties, the officials said, it has been made clear to Syria that the marines will not be withdrawn and that the United States is prepared to use the massive firepower it has arrayed off the Lebanese coast in carefully calibrated responses to attacks against the marines.

In addition, the officials stressed, the Lebanese Army, benefiting from months of intensive training by U.S. advisers, proved able in the past month's fighting to withstand

fierce Druze assaults, aided by Syrian arms and Syrian-influenced Palestinian fighters, and to keep control of Beirut's perimeters.

Using these factors as ammunition, the officials said, Mr. McFarlane argued to the Syrians that they had an alternative in the "national reconciliation dialogue" offered by Mr. Gemayel to his foes. The object would be to restructure the Lebanese political system to give more power to the disaffected Muslim factions. With this as a vehicle, Syr-

ia, through its ties to these groups and through its proposed role as a mediator in the talks, could seek to regain its former political and economic influence in Lebanon.

## Wider Muslim Role Seen

The United States hopes the cease-fire will promote negotiations among the warring factions and lead to "a wider political structure" that may include a greater role for Muslims, United Press International quoted Secretary of

State George P. Shultz as having said in New York.

The secretary of state said preparations were being made for meetings on ways to oversee the cease-fire, possibly with United Nations observers, and to "begin the process of national reconciliation."

Although the outcome of those discussions cannot be foretold, Mr. Shultz said, lasting reconciliation could require greater participation by Muslims in the Lebanese government.



Volunteer workers for Caritas, a charity organization, ducked for cover near Seblin, south of Beirut, as they came under sniper fire before the Lebanese cease-fire went into effect. They were taking food and medical supplies to towns and villages in the Chuf mountains.

## WORLD BRIEFS

### Uruguay Arrests Top Political Leader

MONTEVIDEO (Reuters) — Uruguay's military government arrested a leading politician during a second national day of protest. Politicians and diplomats said the arrest could scuttle talks on a return to democracy promised for March 1985.

Eladio Fernandez Menendez, a leader of the Blanco Party, was being held at an unknown location under emergency security regulations, his lawyer said. Party sources reported at least four other arrests Sunday when about 200 youths marched in the streets of the capital's most affluent suburb, Carrasco, after nationwide pot-banging and blackouts to protest 10 years of military rule.

Observers said the arrest of Mr. Menendez appeared intended to freeze negotiations on constitutional reform, which were resuming after breaking down in July. They said it apparently reflected a split between moderates and hardliners who wanted the timetable for a return to democracy to be scrapped.

### U.S. Envoy Apologizes for Incident

OSLO (AP) — U.S. Ambassador Mark E. Anstad telephoned a Norwegian woman Monday and apologized for banging on her door in the dead of night until she called the police, the American Embassy said.

An embassy spokesman said the ambassador explained to the woman, who had filed a complaint with the police, that the incident occurred because he thought he was at the house of a friend. The woman, who was not identified, accepted the ambassador's apology and agreed to withdraw the complaint.

In a statement issued during the weekend, the embassy described the incident, which occurred early last Wednesday in the northern city of Tromsø, as a "regrettable... misunderstanding" that happened because Mr. Anstad's taxi took him to the wrong address.

### Belgium Cleans Up After 9-Day Strike

BRUSSELS (Reuters) — Mountains of rubbish began disappearing from Belgium's streets Monday after public service workers ended an unsuccessful nine-day strike against planned pay and benefit cuts.

With few exceptions, the last strikers returned to work Monday morning despite winning only minimal concessions from the center-right government. Trains, buses and streets were reported working normally, but officials said it would take up to a week to remove tons of accumulated garbage, distribute millions of delayed letters and clear backed-up traffic in the port of Antwerp.

The strike collapsed Friday when the Socialist trade union federation, abandoned by its Social Christian and Liberal counterparts, voted reluctantly to accept the government's offer of minor improvements.

### Opposition Leader Jailed in Pakistan

ISLAMABAD, Pakistan (Reuters) — Abdul Wali Khan, a leader of an opposition party campaigning against Pakistan's martial law administration, was arrested here Monday on his arrival from London.

Mr. Wali Khan, whose wife and aged father were already in custody, is the latest of at least 10 opposition politicians held on arrival as they returned from abroad to join the eight-party Movement for the Restoration of Democracy in its campaign against President Mohammed Zia ul-Haq. Mr. Wali Khan, 62, is a dominant figure in the National Democratic Party.

Before leaving London, Mr. Wali Khan told the British Broadcasting Corp. that the movement would not open a dialogue with General Zia until democracy was restored. The group is demanding his resignation and immediate elections.

### Kenya's Go to Polls in Relative Calm

NAIROBI (UPI) — Millions of Kenyans voted amid relative calm Monday in the fourth general election since the country gained independence from Britain two decades ago.

Election officials said no major incidents were reported during the polling, in sharp contrast to a hectic six-week campaign. At least eight persons died in campaign-related violence before the election, police said, and scores were injured.

All but five of the Parliament's 158 seats were at stake. Five candidates, including President Daniel Arap Moi and Vice President Mwai Kibaki, have already been returned to office unopposed. About 7.2 million people are registered to vote. Full results are expected Tuesday.

### Shcharansky's Health Causes Concern

MOSCOW (NYT) — The mother of Anatoli B. Shcharansky said Monday she was afraid her imprisoned son would not survive the second half of his 13-year sentence unless he was hospitalized.

Ida P. Milgrom, Mr. Shcharansky's 75-year-old mother, said that when she last visited her son at Chistopol Prison July 5, he was suffering repeated pains in his left chest, which prevented him from taking exercise or sleeping on his left side.

Mr. Shcharansky endured a hunger strike for 110 days last year, during which he was force-fed and lost half his weight. He was protesting the denial of his right to correspond with his family. Mr. Shcharansky abandoned the fast Jan. 14, after his mother won the right to exchange notes with him. He was arrested in March 1977 and charged with spying for the United States.

### For the Record

COMISO, Sicily (AP) — Police using tear gas, riot sticks and water cannon repeatedly charged about 1,000 protesters Monday outside a base being prepared for cruise missiles, authorities reported.

HONG KONG (UPI) — Sir Percy Cradock, British ambassador to Beijing, will retire from the diplomatic service at the end of the year but will retain a major role in talks on the future of Hong Kong, it was announced Monday.

MADRID (Reuters) — José María Ruiz Mateos, the former president of Rumasa, the huge private holding company expropriated by the Spanish Socialist government, was declared Monday in contempt of court by a judge after failing to appear on fraud charges.

### Correction

The caption on a photograph that appeared on the financial pages in Monday's edition incorrectly identified the official speaking with Finance Minister Jacques Delors of France. He is Otto Schleicher, under state secretary in the West German Finance Ministry. The caption mentioned supplied by The Associated Press had erroneously identified him as Gerhard Stoltenberg, the West German finance minister.

### Reagan Offers New Flexibility on Arms Stand

(Continued from Page 1)

negotiated with the Soviet Union will be fulfilled," Mr. Reagan said. He said, for example, that the Russians had failed to fulfill their promises for human rights improvements in the Helsinki accords, violated agreements on biological and chemical weapons, and hindered verification of missile agreements with encoding methods.

A newly discovered radar facility and a new ICBM raise serious concerns about Soviet compliance with agreements already negotiated," Mr. Reagan asserted, although he provided no details.

Recently, however, the Russians have rebuffed American requests for meetings of the joint arms control monitoring group to discuss

possible Soviet violations of strategic nuclear arms treaties.

After speaking Monday, Mr. Reagan drove back to the Waldorf Astoria Hotel for separate meetings with King Hassan II of Morocco and Prime Minister Indira Gandhi of India. Monday afternoon, Mr. Reagan flew back to Washington.

#### Tass Ignores Proposals

The Soviet news agency Tass dismissed President Reagan's speech Monday as filled with hypocritical distortions of the truth and ignored his challenge to the Soviet Union to reach an arms accord. Reuters reported from Moscow.

In a virulent attack, Tass said Mr. Reagan had used "gross distortions of generally known facts,

demagoguery, disinformation and blatant lies" in an attempt to camouflage a policy of imperialism and adventure.

The commentary criticized U.S. policy in Lebanon, Chad and El Salvador, which it said gave the lie to U.S. talk of peace and renunciation of violence.

It said Mr. Reagan's charge that some members of the nonaligned movement were actually clients of the Soviet Union reflected his animosity at a widening rift between Washington and the non-aligned countries. Only this could explain such an allegation, the agency said.

Tass summed up the president's speech as "just another awkward attempt to misinform public opinion."

## Cardinal Plays Dual Role in Manila

(Continued from Page 1)

nal has emerged as perhaps the only person capable of putting things back together.

"He is a political bridge between the president and the opposition," said one Western diplomat. "He has stepped up his pressure [on Mr. Marcos], and the church is going to be more politically active after this."

The cardinal has such a preeminent political position partly because no one else commands much broad respect. In the post-Aquino period, the opposition suffers again from factionalism. It has many loud voices proclaiming themselves to be leaders but has no one with a national constituency.

Cardinal Sin's political role has changed considerably since Mr. Aquino's death. Before, he was a sporadic critic, speaking out on occasions of government excesses, such as rigged elections. He has now become a more deliberate planner and is trying to build a consensus around his ideal of "national reconciliation." He first offered the plan in February, but the government ignored his proposal.

A copy of Cardinal Sin's proposal shows that he envisions a council composed of representatives of the

government, church, opposition political groups and private business.

The cardinal's plan lists several pre-conditions for reconciliation: free elections, a free press, an independent judiciary and a "thorough and impartial" public investigation of Mr. Aquino's assassination.

Although he has spurred the proposal in the past, Mr. Marcos may be more inclined to listen now that his political base and credibility have been so badly eroded by the assassination of his former enemy. But on Friday night, according to a church spokesman, the president promised only "to take a look at" the proposal.

It was to Cardinal Sin, the leader of 45 million Philippine Roman Catholics, that the United States quickly turned after Mr. Aquino's assassination, sensing a debate ahead in plans for President Ronald Reagan to visit here in November.

A meeting with the cardinal was arranged for Mr. Reagan's visit to soften the spectacle of a U.S. president halfway around the world

meeting with the head of the government that is widely suspected of having Mr. Aquino killed.

It is not likely that pictures of a Reagan-Sin meeting will satisfy the opposition, which views Mr. Reagan's planned visit as one more symbolic American gesture of support for Mr. Marcos. Demonstrations are planned and at least one prominent businessman here has advised the U.S. Embassy to have the trip canceled.

But U.S. officials say they believe that the cardinal's enormous moral influence may take some of the sting out of the criticism and send a semblance of impartiality to the visit.

Recently, Cardinal Sin has been meeting privately with a group of influential businessmen and academicians, many of whom have turned into quiet critics of Mr. Marcos since the assassination. The group is described by one participant as composed of people "seeking an outlet" for their anger but not prepared to join ranks with what they regard as the opposition's ineffectual leaders.

## IMF Reaches Compromise

### On Access to Borrowing Pool

(Continued from Page 1)

percent basic borrowing limit for 1984, was abandonment of assurance that access would be phased down in 1985 and in later years. On Saturday, the Group of 10 rich nations had endorsed Mr. Reagan's stand and recommended that the enlarged access figures be gradually phased out.

But the full Interim Committee, reflecting the fears of the poorer nations that this would be too much to decide now, decided merely that access limits will be reviewed annually, depending on the availability of IMF resources and borrowing demands.

Moreover, according to the text of the committee's communiqué, future access limits could be extended, as well as phased out or terminated, depending on circumstances.

Officials had been desperately concerned Sunday that the deadlock between a restrictive American position and the desire of most of the other nations to take a more liberal stance could not be resolved.

In that case, the "enlarged" access, currently 150 percent of annual quotas for a maximum of 450 percent over three years, would automatically have reverted to 100 percent and 300 percent.

In effect, that would have meant an automatic reduction in loan allowance for almost all countries. But under the compromise of allowances ranging from 102 percent to 125 percent, Mr. De Clercq said, "all countries will potentially have larger access" than they do now.

Since quotas, which are deposits of national currencies, are being increased an average of 48 percent, the 102 percent figure approximately equals 150 percent of the current, smaller quotas. And the 125 percent limit will allow many countries more liberal loans.

But both Mr. de Larosière and Mr. De Clercq went out of their way to stress a paragraph of the communiqué that states unequivocally that the access limits "should not be regarded as targets." In the same way that the IMF Executive Board will retain discretion to ex-

ceed the 125 percent limit, on occasion, they will not automatically allow a country that needs more than 102 percent to go to 125 percent.

Meanwhile, the United States on Sunday refused to contribute more than \$750 million a year for IDA-7, the International Development Agency's lending program that would cover fiscal years 1985 through 1987.

### Soviet Grain Imports

#### May Decline by 1990

The Associated Press

PARIS — Soviet grain imports may decline to an annual level of less than 10 million metric tons by 1990 from an average annual rate of 35 million tons over four years through 1983, according to the Organization for Economic Cooperation and Development.

In a report released Monday, the OECD said the Soviet Union, which has become the world's biggest importer of grain and meat in the past few years, is likely to reduce its dependence on agricultural imports in the coming years.

## Reagan Offers New Flexibility on Arms Stand

(Continued from Page 1)

negotiated with the Soviet Union will be fulfilled," Mr. Reagan said. He said, for example, that the Russians had failed to fulfill their promises for human rights improvements in the Helsinki accords, violated agreements on biological and chemical weapons, and hindered verification of missile agreements with encoding methods.

A newly discovered radar facility and a new ICBM raise serious concerns about Soviet compliance with agreements already negotiated," Mr. Reagan asserted, although he provided no details.

Recently, however, the Russians have rebuffed American requests for meetings of the joint arms control monitoring group to discuss

possible Soviet violations of strategic nuclear arms treaties.

After speaking Monday, Mr. Reagan drove back to the Waldorf Astoria Hotel for separate meetings with King Hassan II of Morocco and Prime Minister Indira Gandhi of India. Monday afternoon, Mr. Reagan flew back to Washington.

#### Tass Ignores Proposals

The Soviet news agency Tass dismissed President Reagan's speech Monday as filled with hypocritical distortions of the truth and ignored his challenge to the Soviet Union to reach an arms accord. Reuters reported from Moscow.

In a virulent attack, Tass said Mr. Reagan had used "gross distortions of generally known facts,

demagoguery, disinformation and blatant lies" in an attempt to camouflage a policy of imperialism and adventure.

The commentary criticized U.S. policy in Lebanon, Chad and El Salvador, which it said gave the lie to U.S. talk of peace and renunciation of violence.

It said Mr. Reagan's charge that some members of the nonaligned movement were actually clients of the Soviet Union reflected his animosity at a widening rift between Washington and the non-aligned countries. Only this could explain such an allegation, the agency said.

Tass summed up the president's speech as "just another awkward attempt to misinform public opinion."

P · O · S · H



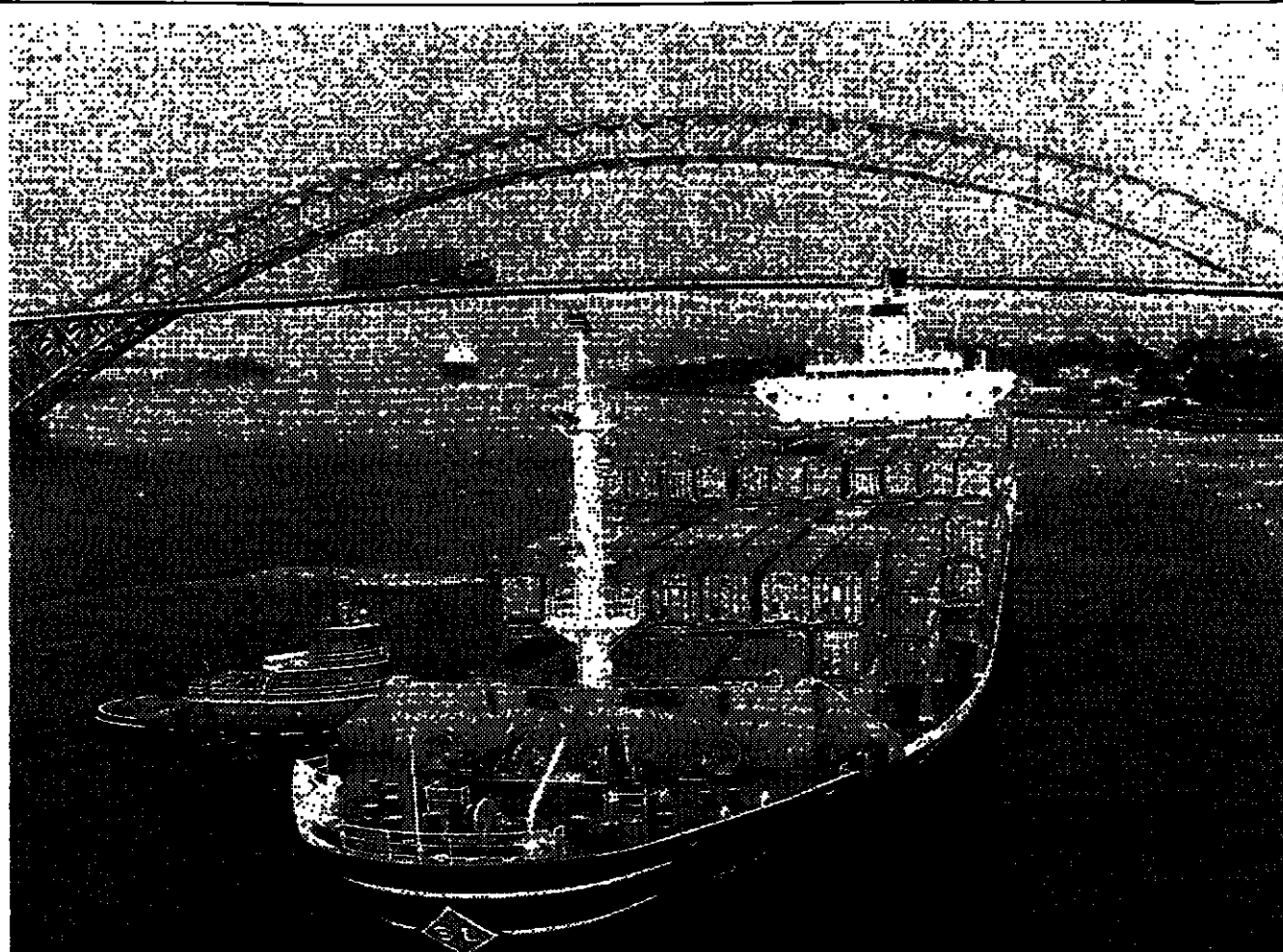
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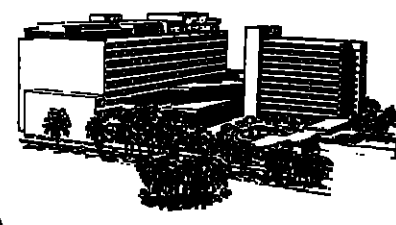
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هكذا من الأفضل



## Alan Cranston — A Mix Of Caution and Passion

### Nuclear Disarmament Is Foremost On List of Californian's Causes

By Michael Barone

WASHINGTON — Alan Cranston was 31 and had already had a lifetime's worth of interesting and exotic experiences. As foreign correspondent for the Mountain View (California) Register-Leader, he sat in the Vienna courtroom where the

politics. He built the California Democratic Committee, a liberal group that he says was also a mechanism to prevent Republicans from winning Democratic nominations under the state's old cross-filing system. With wife and family in the car, he crossed the state for the CDC.



Alan Cranston

#### THE CANDIDATES

This is one in a series of occasional articles about the men who are seeking the Democratic nomination for U.S. president in 1984.

assassins of Chancellors Doolittle were tried in 1934 and he covered student riots in Mexico in 1935.

In 1936 and 1937, the future Democratic senator from California worked for Hearst's International News Service in London and Rome. In 1938, he was the first American reporter in Ethiopia after Mussolini's conquest.

A sprinter himself, he met Jesse Owens and stood face to face with Hitler one night in Munich. In New York in 1939, he and a former Hearst editor published excerpts from "Mein Kampf" not included in the English version; lawyers for Hitler's publishers sued and got Mr. Cranston's version off the market after just 10 days.

Mr. Cranston spent most of World War II in Washington at the Office of War Information. He worked for Archibald MacLeish and Elmer Davis, and he got to know Eleanor Roosevelt; he says he lobbied her against the Japanese-American detention camps after visiting one and seeing his family's former gardener there. It was his idea, he says, to publicize Hitler's obliteration of the Czech town of Lidice by persuading Stern Gardens, Illinois, to rename itself Lidice.

These must have been heady experiences even for a man as fortunate in his background as Alan Cranston was. His father was a successful builder and real estate developer in the peninsula towns south of San Francisco. Alan grew up in the 1920s in a home called the Villa Waverly in the hills above Stanford, with a swimming pool and servants. It was a good childhood; it is Silicon Valley today.

The family took summer trips to Europe. His father was a strong Republican — "He's got a purple with the mention of F.D.R.'s name," Mr. Cranston's interest in politics and journalism grew out of dinner table conversations and when he listened to discussions between his father and the legendary San Francisco editor, Fremont Older, a progressive then in his 70s. It was Older and Pop Smith of the paper in nearby Mountain View who got Mr. Cranston started in journalism.

But Mr. Cranston's early career was not all success. "I learned more," he says now, "from setbacks than from success." He lost the "Mein Kampf" lawsuit and was sued by Hilda Selassie for libel for writing that the emperor had a man saved in half.

His play, "The Big Story," intended for Broadway, died out of town; he failed to make the 1936 Olympics, where he might have run with Mr. Owens in Berlin. Like many young reporters and staffers today, he had lots of contacts and interesting experiences, but they did not seem to be adding up to a successful career.

So in 1945, he took another path — or, rather, two of them. He decided to return to California, where he "surprised and pleased" his father by joining his business. He also met Greenville Clark, founder of the United World Federalists, and, first in California and then for two years in New York as Mr. Clark's top staffer, tried to advance the cause of world government.

The emphasis on nuclear disarmament in his presidential campaign is no accident; this has long been his foremost cause. But there is also a practical side to Mr. Cranston. He stayed in the real estate business and in postwar California he made plenty of money; he has lived comfortably ever since, although never in the grand style of his parents.

And with an independent financial base, he also entered practical

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HILTON INTERNATIONAL

## Church Emerges as Intermediary in Chilean Crisis

By Jackson Diehl

Washington Post Service

SANTIAGO — With the growth of Chile's protest movement, the Roman Catholic Church has shifted away from confrontation with the government of General Augusto Pinochet and is emerging as a potential intermediary in the deepening crisis.

The powerful church organization long led attacks on the military's human rights violations and sheltered dissidents from General Pinochet's repression. The government counterattacked with measures ranging from the arrest and expulsion of priests to the public harassment of bishops.

After the inauguration in June of Juan Francisco Fresno as archbishop of Santiago, however, both state and church have appeared to seek a change in relations. The archbishop has focused on calls for political dialogue and conciliation, and government leaders have viewed the church as a possible aid in pacifying political opposition.

Church leaders increasingly have placed themselves in the isolated middle ground between General Pinochet and the alliance of political and labor leaders seeking his ouster.

Last Monday, Archbishop Fresno appeared to defuse a potential crisis by successfully asking General Pinochet to drop charges against

a popular dissident labor leader, Rodolfo Seguel. Mr. Seguel, who was jailed by a judge after calling General Pinochet a "fanatical dictator," had been reported to be in deteriorating health after 10 days of a hunger strike.

General Pinochet and government supporters evidently hope Archbishop Fresno will rein in church activists in human rights and social movements and call for an end to five months of popular protests. The new archbishop is also under heavy pressure, however, from Santiago's priests and traditional church leaders to speak more forcefully against military repression and in support of rights for the poor and a return to democracy.

Fresno has been given the image of a more conciliatory figure, and the political conditions have changed," said Jorge Ono, an organizer of the Christian Democratic Party who has worked extensively with church groups. "The hierarchy is more in the center, but on the lower levels, the church people are very committed to the common people. And those sectors are the ones carrying the protest."

Since the 1973 coup that brought General Pinochet to power, the church has only appeared to grow in importance in a country whose population of 11.5 million is overwhelmingly Roman Catholic. After the military government's ban on political activity and harsh repression of leftists, the church's Solidarity Vicariate became Chile's authoritative human rights organization and its Academy of Christian Humanism sheltered hundreds of professionals and scholars fired from universities or persecuted by the government.

Under Cardinal Raúl Silva Henríquez, the church also took an activist role in labor groups and slum organizations. "The result of all this is the church has a lot of influence in the poor districts," said Duncan Livingston, executive secretary of the Academy of Christian Humanism. "In all of the slums the church is looked on as a fellow traveler, the one institution that can be respected."

Until 1980, church groups were virtually the only open critics of the military government, and General Pinochet, although unable to break

the church, often reacted harshly. Government officials organized regular attacks on church organizations in state-controlled media, and arrested, expelled and occasionally beat priests. By late last year, General Pinochet was refusing requests to meet with the national Catholic bishops' council, which issued a statement in December calling for a rapid return to democracy.

The change in relations this year was shaped by the Vatican's naming in May of Archbishop Fresno to replace Cardinal Silva, who was retiring, and the eruption of anti-government protests. Following unsuccessful efforts to repress the protest movement, General Pinochet's government has sought to disarm it through a program of liberalization and measured progress toward democracy.

In this effort, the government has seen Archbishop Fresno, who worked for 16 years in the quiet mining center of La Serena, as a potential key. "Our prayers have been answered," said General Pinochet's wife, Lucia, when the 69-year-old conservative was named to succeed Cardinal Silva.

General Pinochet has since conspicuously cultivated the new Catholic leader. He attended the archbishop's first Mass on June 11, then invited him to lunch and sent him a Bible on his birthday.

Pro-government media besieged Archbishop Fresno for several days before the last national protest in an effort to extract a comment on whether the demonstrations should be held. While strongly deploring violence, however, the archbishop has not taken a stand against the protests.

At the same time, the archbishop's style has raised opposition within the church. Meeting in August, Santiago priests criticized the archbishop for lowering the church's image as a defender of the poor and for allowing the government to use him for political purposes, church sources said.

## White House Weighs Watt's Future After Controversy Splits Republicans

By Dale Russakoff

Washington Post Service

WASHINGTON — The future of Interior Secretary James G. Watt remains uncertain as the White House monitors political fallout from his latest controversial remarks. Conservative and moderate Republicans are split over whether his departure would hurt or help the party in the coming election year.

White House officials were expected to confer this week with Senate Republican leaders on whether President Ronald Reagan can afford to continue backing his most conservative cabinet officer after Mr. Watt's characterization of five advisers as "a black... a woman, two Jews and a cripple."

The assistant Senate majority leader, Theodore F. Stevens of Alaska, a conservative Republican, defended Mr. Watt Sunday as a "God-fearing man" and vowed to block a Senate resolution calling for his resignation.

The resolution, sponsored by the Senate minority leader, Robert C. Byrd, Democrat of West Virginia, is to come to the floor Wednesday, and in light of calls for Mr. Watt's ouster by 10 Republican senators, is expected to pass if brought to a vote.

Senator Stevens' support of Mr. Watt, voiced on television, marked a break in the ranks of the Senate leadership, most of whom members have joined Democrats in sternly censuring Mr. Watt for his remarks last week about the commission investigating his embattled coal-leasing program.

The majority leader, Howard H. Baker Jr. of Tennessee; the chairman of the Finance Committee, Robert J. Dole of Kansas, and the chairman of the Budget Committee, Pete V. Domenici of New Mexico, all Republicans, have called Mr. Watt a liability to the administration and the party. Senator Dole told Mr. Watt by telephone Friday that he believed he should resign.

Senator Bob Packwood, Republican of Oregon and chairman of the Commerce, Science and Transportation Committee, also appearing on television, said that Mr. Watt should go and that Mr. Reagan, in not firing him, has missed an important chance to show sensitivity to minority groups.

"Honest people can disagree about [Mr. Watt's] environmental policies," Senator Packwood said. "But it is not permissible to go around making... demeaning statements about almost every group in America. Why do we have to put up with this liability that does us no good, has got nothing to do with the environmental policies,

and all it is, is an insulting embarrassment?"

The chairman of the Republican National Committee, Frank Fahrenkopf, called Mr. Watt's comment "unacceptable." But Mr. Fahrenkopf said the statement alone should not force Mr. Watt out.

Mr. Reagan, who accepted a written apology from Mr. Watt on Thursday as adequate, remained silent on the matter Sunday.

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## Jackson Ties Campaign To Other Black Contests

By Milton Coleman

Washington Post Service

WASHINGTON — The Rev. Jesse L. Jackson is recasting his possible presidential candidacy in 1984, saying it could be more effective as a way of spearheading the election of blacks to congressional, state and local offices than of brokering black influence at the Democratic National Convention.

The new emphasis comes in the face of continued opposition to his candidacy from prominent black politicians and civil rights leaders. This opposition persisted through numerous meetings here at the 13th annual Congressional Black Caucus legislative weekend, the premier yearly gathering of the black leadership.

It also comes as Mr. Jackson has reached a critical deadline for deciding whether to run. Strong grass-roots financial and political support is apparent, but vital high-level backing is uncertain in both areas.

"No money has been raised for his campaign that I know of, and it will not be raised until he decides he is a candidate," said one Jackson supporter, Percy Sutton, a New York communications executive and former Manhattan borough president.

Until recently, Mr. Jackson's possible race was debated primarily as a way to spotlight frequently discussed black issues, increase black voting strength nationwide and win delegates in selected state primaries to use as leverage at the nominating convention in San Francisco next July.

But Mr. Jackson's proposal has been plagued by concern among some critics that it would be a self-

promotion campaign for a maverick civil rights leader who has never held public office. Moreover, many black politicians at all levels are reluctant to relinquish their own brokerage power.

Opponents have also complained that a black presidential candidate cannot win and that even a symbolic candidacy might force the Democratic platform too far to the left, hopelessly split blacks and Democrats and ultimately help re-elect President Ronald Reagan, if he runs again.

Consequently, relatively few black politicians have jumped on the Jackson bandwagon publicly. Now, Mr. Jackson is appealing for support on the ground of increased black power at the local level.

"The more we talk, the more we convince people that the issue is not just the White House," he said in an interview Sunday. "People really buy in at the level of supervisors and school board members and county board seats. Many politicians see the new enthusiasm [over a black presidential candidate] as a way of winning their races."

The thrust of the new emphasis, said Arthur O. Eves of Buffalo, deputy speaker of the New York state Assembly and a Jackson supporter, is that "Jesse doesn't take anything from anybody. He adds to the number of blacks participating."

In an effort to link black concerns with those of women and organized labor, Mr. Jackson said at a candidate forum Saturday that increased registration of Southern blacks could set off a chain reaction resulting in ratification of the Equal Rights Amendment, im-



Jesse L. Jackson

proved day care and fewer right-to-work, anti-union laws.

Mr. Jackson's appearance at the forum underscored his ability to excite black audiences. But at other weekend sessions, his supporters encountered strong opposition to his potential candidacy.

The 20-member Black Leadership Forum and the 150-member Black Leadership Roundtable, both umbrella groups of black leaders, discussed a Jackson candidacy but took no stance.

Sources who attended a forum meeting that lasted several hours said principal opposition came from the executive director of the NAACP, Benjamin L. Hooks, and Coretta Scott King of the Southern Christian Leadership Council.

Jackson supporters told the forum the sources said that those who could not support a Jackson candidacy publicly should at least not attack it, as Mr. Hooks has done consistently.

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## Weinberger Tells China Of Danger From Soviet, Promises U.S. Weapons

By Fred Hiatt

Washington Post Service  
BEIJING — The U.S. secretary of defense, Caspar W. Weinberger, pressed the Chinese hard Monday on the need for strategic cooperation, instructing them for more than an hour about the dangers of the Soviet buildup around the world and promising them access to U.S. weapons.

The Chinese responded with cool friendliness on both counts, promising to "study his points" on the world situation and referring the weapons question to lower-level technical teams for discussion. They made clear, however, that they believe the job of military defense is more appropriate for the United States than for a "poor country" like China, according to a high-level U.S. official who attended Monday's meeting between Mr. Weinberger and Defense Minister Zhang Aiping.

Mr. Weinberger was on the second day of a five-day visit to China aimed at resuming the military relationship between the two countries after two years of tensions. U.S. officials would like to help modernize the Chinese Army to offset what they see as a Soviet buildup in northeastern Asia, Afghanistan and Vietnam.

The Chinese, who want access to U.S. technology in many fields, have welcomed Mr. Weinberger politely but cautiously. Mr. Zhang emphasized in his welcoming toast Sunday — and by his brief response in Monday's meeting — that China would not abandon its independent course by allying itself too closely with the United States.

During their meeting Monday morning, Mr. Weinberger assured Mr. Zhang that the United States was sincere in its desire to allow China access to more advanced technology than has been permitted in the past. As a result of new regulations categorizing China as "friendly but non-aligned," 22 items in which China expressed an interest more than two years ago will now be made available, Mr. Weinberger said.

U.S. officials declined to specify those items, but they said some of them were munitions. The defense secretary told Mr. Zhang that the United States would look with particular favor on defensive weapons, and the new list is thought to include anti-tank missiles and radar systems.

Mr. Weinberger said 11 more items would be made available if China provided assurances that the technology would not be passed on to third countries, a reference to the Soviet Union and North Korea.

Mr. Weinberger spent most of the morning, however, explaining the Reagan administration's view of the world, with emphasis on Soviet activities in Asia, Latin America and the Pacific.

"The Soviet buildup in the Pacific is a threat to both China and Japan," Mr. Weinberger said, according to the official account.

Mr. Zhang thanked Mr. Weinberger for his "concise briefing." "Having listened to your briefing, we will go and study your points," he replied.

U.S. officials took heart that Mr. Zhang did not mention Taiwan, saying only that points of disagreement would better be left to the foreign ministers. China's foreign minister is expected in Washington later this year.

Mr. Zhang also said, according to the U.S. official, that "we all know very well whence come the threats to China and world peace." U.S. officials saw that statement as a partial endorsement of Mr. Weinberger's exposition.

After the formal morning session, members of the U.S. delegation met with Chinese officials in working groups to discuss technology transfer and possible future exchanges of military teams.

While those working sessions were going on, Mr. Weinberger made the obligatory visit to the Great Wall. On Tuesday he was scheduled to visit a Chinese Army garrison and meet with Prime Minister Zhao Ziyang.



WASHOUT — Rains in the northern Japanese island of Hokkaido washed out a road near the city of Noboribetsu. About 1,500 houses were flooded in the area.

## Marcos Vows to Revamp Commission on Aquino

Compiled by Our Staff From Dispatches

MANILA — President Ferdinand E. Marcos announced Monday that he would reorganize the commission investigating the assassination of Benigno S. Aquino Jr., the opposition leader.

Mr. Marcos, in a nationwide radio and television address, offered to revamp the fact-finding commission, which has been widely criticized, saying he wants a "free, impartial and objective" inquiry. Mr. Aquino was killed as he returned home last month from self-exile in the United States.

"If necessary, I intend to strengthen the commission," Mr.

Marcos said. "If the commission is of the belief that there should be more members, I will consider the matter and ask perhaps two members of the Batasang Pambansa [parliament] to participate."

Meanwhile, about 1,600 extra troops and tanks have moved to Manila in a show of force after anti-government riots, triggered by Mr. Aquino's murder, and to boost security for President Ronald Reagan's visit in November, according to military and diplomatic sources quoted by Reuters.

Two battalions of soldiers have been airlifted to a military camp on the outskirts of Manila and tanks have also been brought in after the worst violence since martial law was imposed 11 years ago, they said.

Ten persons were killed and more than 150 injured when security forces clashed with demonstrators trying to force their way through to President Marcos's palace last week.

The political opposition, which has called for Mr. Reagan's visit to be canceled, has said it will press ahead with demonstrations against the U.S. president despite a security clampdown and a ban on unauthorized rallies.

Diplomats said the visit, scheduled for Nov. 5 and 6, would go ahead despite fears for Mr. Reagan's safety.

"The only scenario I can really see is Marcos disavowing Reagan by saying the timing is inappropriate in view of the murder. But Marcos is not that sort of man — when challenged, he comes out fighting," said one diplomat quoted by Reuters.

Agapito Aquino, brother of the slain politician, told United Press International that an offer of protection by Mr. Marcos for 11 witnesses, whose accounts run counter to the government's version of the assassination, was "impractical." The government said Mr. Aquino was killed by a hired gun who was shot to death by soldiers seconds later.

"You believe that anybody is brave enough or crazy enough to go under the protection of Marcos?" he said. "What guarantee do we have, Marcos's?"

Mr. Marcos, whose television appearance was his second in two days, said street violence was inspired by "communist partisans, gangsters, vandals, thugs and other subversives."

The tough response to the work-

## Spain: Is Socialists' Honeymoon Over?

By Brian Mooney

Reuters

MADRID — Spain's Socialist government, which appeared almost unshakable when it took power with a four-year mandate after a landslide election victory last October, has begun to look just a little vulnerable.

Two potentially damaging cracks have emerged in less than a week, with a disgruntled army general openly defying the government and trade unions threatening nationwide strikes.

At the same time, Prime Minister Felipe Gonzalez submitted himself to a bruising three-day debate in the legislature, the Cortes, in which his administration came under concerted fire from opponents of both the left and the right.

But despite the tone of the attacks, the Cortes was the 41-year-old prime minister's least concern. His Socialist Workers' Party commands an absolute majority in the lower house, the Congress, with 202 of the 350 seats.

More troubling was the pressure outside the Cortes — from sectors of the armed forces still apparently unreconciled to Spain's new democracy and from workers not willing to go along with the Socialist's austerity measures.

Political sources said both developments were a jolt to the government, which was just congratulating itself on achieving an initial success in turning the tide of economic recession.

Discontent in the barracks, which came to light with the publication of a magazine interview with a senior army general who was critical of the government, raised yet again the specter of a military coup in Spain.

Most Spaniards had put such thoughts out of their minds since the Socialists took office in December and embarked on a course of moderate reform in the style of social democrats.

But the picture changed with a recent campaign for democracy for officers imprisoned for taking part in a spectacular but abortive coup in February 1981. The campaign culminated in an interview given by the commander of the Valladolid military region, Lieutenant General Fernando Soteras Casamayor.

General Soteras said a majority of fellow officers wanted the coup plotters freed and also described a hypothetical case in which he said the armed forces would be justified in seizing power.

Mr. Gonzalez reacted by sacking General Soteras. And he sounded a warning in the Cortes against military meddling in politics.

His warning was echoed by Spain's most influential newspaper, El Pais, which said that his government should not underestimate the threat from the military.

"I would not be surprised if some element of the army tries to launch another coup," commented Xavier Aznar, president of the Basque National Party.

The government insists, however, that there is no danger of an army rebellion. It dismisses assertions that Spain's young democracy is being held hostage by the military.

But the government did face what amounted to open factory rebellion when workers at a state-owned steel mill in the eastern port of Sagunto defied orders to leave their jobs.

Management sacked or suspended the 160 men involved when they continued production of rail tracks and construction girders after a decision had been made to close down their section of the Alcos Hormos del Mediterraneo plant.

The closure was part of a major overhaul of industry aimed at streamlining the state sector before Spain enters the European Community at a target date of 1986.

More than half the 4,000 workers at Sagunto are expected to lose their jobs under the reorganization, which the government insists is essential if Spain's state industry is to be modernized and made competitive.

The tough response to the work-

ers' defiance, relayed through the state holding company INI, which

### NEWS ANALYSIS

operates the plant, stressed the importance the government attached to the reform.

INI followed up the notices of dismissal with a threat to close the

entire plant if the illegal work-in continued.

But the government was confronted with equally awesome threats. The Communist-led Workers' Commissions trade union movement said it would call strikes throughout Spain unless the dismissal orders were withdrawn. The two sides later reached a

compromise, but the incident left a scar. It marked the first time that the trade unions had flexed their muscles since the Socialists came to power and was seen as a reminder to the government that it would have to tread more carefully in carrying out the unpopular economic measures it says are needed to guarantee economic recovery.

## Madrid Seeking to Loosen Influence Of Catholic Church on School System

United Press International

MADRID — The conflict between Spain's 10-month-old Socialist government and the Roman Catholic Church broke into the open Monday in a confrontation over control of the school system.

The Cortes, or parliament, was scheduled to begin considering a law to loosen the church's influence on education in Spain, which is 95 percent Catholic.

At the same time, the Catholic Bishops' Committee on Education called an emergency session to decide whether to obey a government order that the church withdraw two elementary school religion textbooks containing strong anti-abortion language.

The Education Ministry on Friday banned the two books from

Catholic and other schools that receive direct public funds, saying the church printed and distributed the texts without the required government approval.

Education officials said they had been negotiating over the language with church representatives when they learned that the books already had gone to press.

Government officials said the dispute was purely jurisdictional. But it was colored by Socialist plans to allow abortions for the first time in Spain, despite strong ecclesiastical objections.

Both the education reform and abortion bills are assured of passage this fall by the Socialist majority in the Cortes.

The president of the bishops

conference, Gábor Diaz Merchan of Oviedo, said over the weekend that the church would not comply with the government order.

He said the order "would represent censorship and would go against the treaty signed [in 1979] between the Spanish state and the Vatican."

The 1979 concordat was negotiated to define the church's role in Spain following the death of Franco, under whose regime Catholicism was the state religion.

The new scholastic law being considered by the Cortes is aimed at giving the government more control over the curriculum of state-subsidized schools. It also would provide for parents and students to sit on school councils with a role in administration.



King Leopold III signing abdication papers on July 16, 1951, with Prince Baudouin, at right.

## Former King Leopold III of Belgium, Who Abdicated in 1951, Dies at 81

The Associated Press

BRUSSELS — Former King Leopold III, 81, who abdicated to his son Baudouin 32 years ago, died Sunday of heart failure, the royal palace said Monday.

### Life of Misfortune

New York Times Service

The life of Leopold was marked by misfortune, from the early deaths of his father and first wife to his abdication because of alleged Nazi sympathies.

He ascended the throne in 1934 at the age of 32 after his father, King Albert I, was killed while mountain climbing. Leopold's wife, Queen Astrid, was killed in an automobile accident in Switzerland a few months later when the sports car he was driving hit a tree.

And in 1951, when violence broke out in Belgium over whether he should return to the throne after surrendering to the Nazis in 1940 against the advice of his ministers, the king abdicated in favor of his 20-year-old son, Baudouin.

Leopold was born in Brussels. He attended Eton and was trained later in Belgium for military ser-

vice. On Feb. 23, 1934, six days after his father's death, Leopold became king amid an atmosphere of good will and with a youthful image that endeared him to his people.

An autocrat who favored the counsel of confidants to government officials, Leopold was suspected of Nazi sympathies when he surrendered the Belgian Army in May 1940, although most historians later said he had little choice given the speed with which the Germans were overrunning Europe and the small size and limited firepower of the Belgian Army.

After the surrender to the Germans, Leopold again ignored advice and chose to serve out the war as a prisoner rather than flee to England and head a government in exile.

In December 1941, while a prisoner, he married Marie Liliane Baels, a London-born commoner. He gave her the title of Princess de Rethy with the understanding that neither she nor her children could assume the throne.

The royal couple were liberated by Allied troops in Austria in May 1945 but the king did not immediately return to Belgium, assuming his brother, Prince Charles, as regent while he moved to Switzerland.

He declared that he would not return until those who had been his ministers in 1940 apologized publicly for having counseled him to flee from the Nazis. The government refused.

He opposed the Communists and Socialists who came to power after the war, and they opposed his return in 1950, although he won the support of 60 percent of the voters in a plebiscite on whether he should return.

The margin was considered too small and riots broke out in Brussels and other cities. When Leopold returned to Brussels, troops were needed to ensure his safety and civil war was threatened by leftists and others.

The Socialists rallied government support and a compromise was reached so that Leopold delegated his powers to his son, Prince Baudouin, and abdicated on July 16, 1951.

He continued to live in Belgium and enjoyed the courtesy title of king of the Belgians.

Ruth Carter Stapleton FAYETTEVILLE, North Carolina (AP) — Ruth Carter Stapleton, 53, sister of former President Jimmy Carter, died Monday of cancer of the pancreas, her husband said.

Mrs. Stapleton, an evangelist from Fayetteville, was diagnosed in April as having cancer. She had said she would forego medical treatment and would rely on her faith in God to help her.

Dame Isobel Baillie LONDON (AP) — Dame Isobel Baillie, 88, a noted oratorio soprano and the only British singer to appear three times with the con-

ductor, Arturo Toscanini, died in a Manchester hospital Saturday, the BBC reported Sunday.

Dame Isobel was among the best known and loved of all British sopranos and sang in Handel's "Messiah" more than 1,000 times. Toscanini chose her for performances of Brahms's "Requiem."

NEW YORK (AP) — Paul Jacobs, 53, a major interpreter of 20th century keyboard music and official pianist of the New York Philharmonic, died Sunday.

A graduate of the Juilliard School of Music and student of Ernest Hutchinson, Mr. Jacobs premiered the works of many 20th century composers, including Karl Heinz Stockhausen, Luciano Berio and Hans Werner Henze.

Other deaths: General Harold K. Johnson, 71, U.S. Army chief of staff from 1964 until his retirement in 1968, of cancer Saturday in Washington. He was a survivor of the Bataan death march in 1942.

Brigadier General Harrison R. Thynne, 65, an air force flying ace in World War II and the Korean War, Saturday in Pittsfield, New Hampshire.

## Teamsters Leader Prefers Reagan to Mondale in 1984

New York Times Service

WASHINGTON — The Teamsters will support President Ronald Reagan in 1984 if he is running against Walter F. Mondale, according to Jackie Presser, president of the truckers' union.

Mr. Presser's comments on the presidential race last week put the nation's largest trade union at odds with almost all other U.S. unions. The leaders of the 96 unions in the American Federation of Labor and Congress of Industrial Organizations are expected to endorse Mr. Mondale for the presidency at a meeting in Florida that begins Saturday.

The Teamsters union, which does not belong to the AFL-CIO, was one of the few labor groups to support Mr. Reagan in 1980, and Mr. Presser said the union, which claims a membership of 1.8 million, remains committed to him.

Mr. Presser said he and other Teamster leaders believe Mr. Reagan deserves praise for lowering interest rates and for other economic improvements, and he said the president's next responsibility must be to reduce unemployment.

He predicted that Mr. Reagan could easily defeat either Mr. Mondale, who was vice president under Jimmy Carter, or Senator John Glenn of Ohio, another candidate for the Democratic presidential nomination who is receiving some labor support.

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### French Navy Offices Bombed

The Associated Press

PARIS — Bombs exploded outside French Navy recruiting offices here Saturday and Sunday, causing some damage but no injuries, police said. In a message sent to a news agency, the banned terrorist group Action Directe claimed responsibility for the second blast, near the St. Lazare railroad station. It condemned France's military action in Chad and Lebanon.

The society, which has 20,000 members in 128 nations, passed a resolution accusing Soviet military forces of attacking a civilian plane with 269 people "who did not pose any threat to the lives of others."

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Only 31 percent, Mr. Brandt said, were in favor of deployment, and, among members of the governing Christian Democratic Party, 52 percent were against the new missiles and only 46 percent in favor.

For the Social Democrats, who have moved toward a softer line on security issues since being beaten in the March general election, such polls are evidently a source of solace.

"They think they're immersing themselves in a great populist movement," said Klaus Liepelt of the Infas polling group in Bonn. The propaganda use of such

## Bonn Opposition Is Turning to Polls To Illustrate Anti-Missile Sentiment

By James M. Markham

New York Times Service

BONN — As the partisan debate sharpens over the projected stationing of U.S. medium-range missiles in West Germany, opposition politicians are increasingly resorting to opinion polls to demonstrate that an overwhelming majority of the country is against the new weapons.

Earlier this month Willy Brandt, leader of the opposition Social Democratic Party, unveiled a new survey by the Munich-based polling organization Infratest showing that 66 percent of 1,765 people queried were against deployment if the Soviet Union and the United States failed to reach an arms accord in Geneva.

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"They think they're immersing themselves in a great populist movement," said Klaus Liepelt of the Infas polling group in Bonn. The propaganda use of such

polls is evident. In a highly publicized letter to Social Democratic legislators, Yuri V. Andropov, the Soviet leader, alluded last week to another poll that found 72 percent of the West German population against the new missiles.

In private, both politicians and pollsters are skeptical about what the missile polls really demonstrate.

"It all depends on how you formulate your question," said a government official. "If you ask a German, 'Are you in favor of rockets?' a very high percentage will say no. If you formulate it differently, you will get a different answer."

Mr. Liepelt sees the polls as saying more about human ambivalence than policy options. "People don't like rockets but they don't like to be defenseless," he said.

One of the most intriguing findings of missile polls is that an extremely high percentage of respondents express strong support for the North Atlantic Treaty Organization, even while rejecting the alliance's nuclear modernization program.

The poll disclosed by Mr. Brandt, for example, found that 67 percent of those against the new missiles were also in favor of NATO membership.

"We know that the word NATO is positively valued," said Dieter Roth of the Forschungsgruppe Wahlen organization in Mann-

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# INTERNATIONAL Herald Tribune

Published With The New York Times and The Washington Post

## Brazil's Risky Game

The Brazilian Congress has rejected, by a 252-to-1 vote, a bill to hold down wage increases. That is a bad omen. The defeated bill is not part of the economic stabilization program Brazil worked out with the International Monetary Fund, and perhaps the Brazilian congressmen thought it was a costless gesture. But it seems to show rising resistance to the more stringent restraint on which the IMF agreement depends. The vote on that legislation will probably come in October.

Like the U.S. Congress, the Brazilian Congress prefers to deal with a domestic issue. In Washington, congressmen vote against strengthening the IMF in order, they happily think, to punish American banks. In Brazil, congressmen vote against wage restraint because it will mean, at least temporarily, a drop in living standards.

There is a lot of nationalist talk in Brazil about a moratorium on repayment. Since Brazil is perhaps a couple of billion dollars in arrears on its payments, it has already fallen into an undeclared moratorium. Relations between lenders and borrowers are increasingly taut. Reports from Brazil suggest a rising inclination there to joust with the IMF in a test of nerve and will. That temptation needs to be resisted. It would raise the chances that one of the American creditors might break ranks and rush into a U.S. court to try to seize Brazilian assets in the United States. If that happened, other creditors would feel compelled to do the same thing, if only to protect their positions in the eventual settlement.

Brazilian politicians, other than the financial specialists, evidently do not fully understand that the Reagan administration would have no control over that process. It would go forward in the courts, and not only U.S. courts. It would escalate rapidly into a worldwide competition to attach Brazilian cargoes, ships, planes and bank accounts. People in other countries would suddenly find themselves risking litigation simply by doing business with Brazilian companies.

A primitive and isolated country might hope to ride out that kind of legal attack. But Brazil ranks eighth worldwide in manufacturing output, and 14th in exports. Cut off from international credit and trade, its economy would go into paralysis, with truly dire consequences for standards of living. The effects on the U.S. economy would also be severe, as a major foreign customer disappeared and ripples of panic ran through the credit markets.

Brazil was living for a time on foreign loans, and as foreign lending drops there will be an impact on Brazilian life and incomes. That is inevitable. The crucial thing is to keep lines of trade and credit open, and get the buoyant Brazilian economy expanding again as rapidly as possible. The creditors and the IMF have a responsibility to keep working with Brazil. Conversely, Brazil has a responsibility to keep working with the IMF.

—THE WASHINGTON POST.

## A Victory on Marti

If the White House will now let well enough alone, it can claim a victory in the vexed matter of Radio Marti. That is the name of the station President Reagan clearly wants in order to wage propaganda war against Fidel Castro. But he has failed to show the need for an independently operated station, or any way that American broadcasters could be protected against Cuba's retaliatory jamming.

So the Senate has produced a sensible-looking compromise. It would make Marti part of the Voice of America, which has the needed traditions of professionalism and accountability. Indeed, from 1961 until its budget was cut in 1974, the Voice beamed special daily programs to Cuba. In addition, the Senate would provide for compensation to any domestic station troubled by Cuban jamming.

But instead of claiming victory, the White House is crying foul. It wants a separate station, run by its special appointees, spending public money but with limited accountability. That says something about the fixation with Cuba in the office of William Clark, the president's national security adviser. He has tried to unguile the Senate compromise — over the protest of Howard Baker, the Republican majority leader.

It is not love of Castro but a greater sense of care that explains the resistance to Radio Marti in Congress. Cuban ears need no special assault; most can already tune in Spanish-language (and anti-Castro) broadcasts from Florida. By concurring with the Senate compromise, the House could assure that the War for Cuba's Ear will be fought in ways Americans can applaud.

—THE NEW YORK TIMES.

## Deficit Thinking

Treasury Secretary Donald Regan is busy playing the administration optimist these days, crowing about recovery and brushing aside calls for a future tax increase. Martin Feldstein, the president's economic adviser, looks at the same glass and claims it is half-empty. He says the prospect of huge deficits in 1984 and beyond is reducing exports, holding up interest rates and slowing capital formation. What is needed, Mr. Feldstein argues, is a big tax increase effective in October 1985.

There may be political method to President Reagan's apparent indifference to this open conflict. Financier Regan gets to sell the good economic news, while signaling congressional Republicans that the administration will not press for an unpopular tax increase before the election. Scholar Feldstein works the other side of the political street, reassuring the president's friends on Wall Street that the administration still believes deficits are horrible.

Having it both ways may temporarily be good politics. But unless Washington commits itself to something like the Feldstein approach, it is bad public policy. Some variation of a contingency tax is clearly needed to sustain the recovery. The fact that it would be hard to enact does not give the nation's leader the right to go fishing.

The fiscal 1983 deficit is expected to be a record \$200 billion. That is good, not bad: The extra spending power thus created means more factories working, more workers at work. What worries both liberal and conservative economists is that once output approaches capacity, the remaining "structural" deficit will still be a whopping \$100 billion.

If the Federal Reserve creates sufficient credit to accommodate the government's borrowing needs, the economy will overheat and the result will be inflation. If the Fed hangs tough, immense new government borrowings will crowd out private borrowers, reducing private investment and leaving American business hopelessly uncompetitive in world markets. That is why the administration's January budget plan called for a \$40-billion to \$50-billion tax increase, effective October 1985, unless the "structural deficit" is sharply cut.

One can argue about the specifics of the contingency tax: when it should kick in, who should pay it. But clearly the time to face up to the underlying problem is now. At worst, by 1985, the tax increase might prove unnecessary, and Congress could repeal it.

Meanwhile, rapid enactment might produce immediate benefits. The legislated promise might well lower interest rates, improve the foreign trade balance and spur productive investment. The glass can, and should be, less than half-empty and more than half-full.

—THE NEW YORK TIMES.

## Other Opinion

### A Vicious Cycle

After long years of repression and humiliation, a normally patient and tolerant people — suddenly galvanized by a political murder — descends into the streets to shout its anger and disdain before the palace walls. Behind the walls, a dictator and his underlings, worn by age and by 20 years of absolute power, gorged on luxury but discredited by failure, dig in and give the order to fire.

In the background, a powerful ally, a democracy with global interests, remains silent or else discreetly comforts — as always — those whom the people reject.

This ally, associated with the city-dwelling elite, supports the military in its fight against the growth in the countryside of an armed

communist movement. But the movement feeds on rural underdevelopment, social injustice and the repression encouraged by this U.S. support of the military. It is a vicious cycle.

—R.P. Paringaux in *Le Monde* (Paris).

### Hong Kong's Future

Britain is making political mileage out of the ailing Hong Kong dollar. It is seen as a sign that the colony's prosperity could not be maintained without some form of British administration. The Chinese have been displaying increasing irritation at these inferences. The people of Hong Kong can look forward only to a spate of increased prices.

—The Bangkok Post.

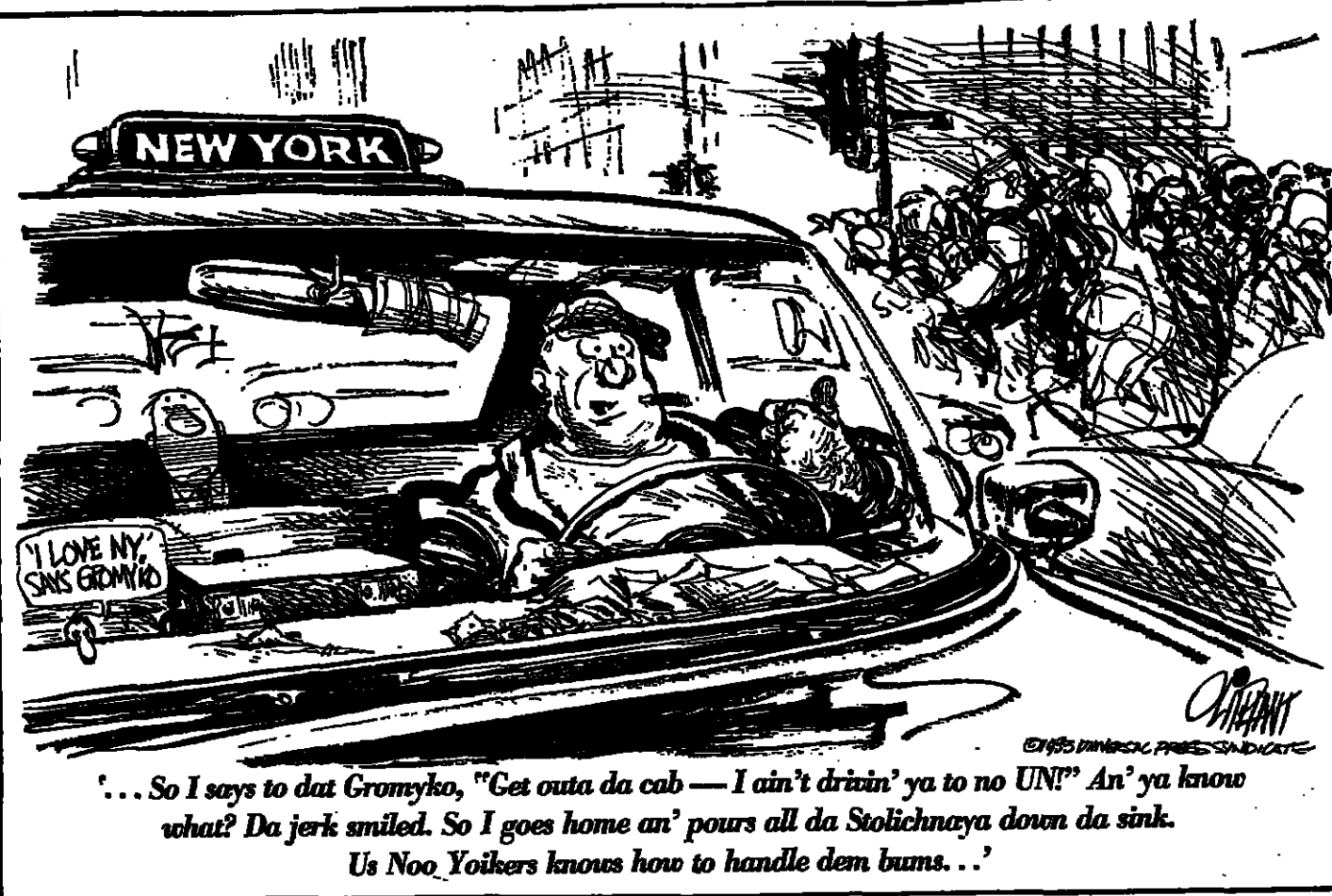
## FROM OUR SEPT. 27 PAGES, 75 AND 50 YEARS AGO

### 1908: Manchuria's Interest

**MOUKDEN, Manchuria** — Intense interest in the proposed American-Chinese alliance is manifested by officials, gentry and merchants throughout Manchuria, the theater of the sharpest conflict between Chinese and Japanese officialdom. Since the war, Japan's veto on the Hsin-Min-Tun Railway extension and the refusal to recognize Chinese rights in the Fushun mines and other property have exasperated the Chinese officials, while the domineering attitude of Japan's nationals toward the natives has provoked deep resentment. Discussing the alliance at Government House, His Excellency Liang-Ju-Hao, Acting Governor of the Feng Tien province, said, "China has the friendliest feelings toward America."

### 1933: Wave of U.S. Strikes

**NEW YORK** — The drive of organized labor under the [National Recovery Administration] guarantee of the right of employees to organize for collective bargaining has resulted in strikes throughout the industrial East and Middle West. They involved Ford Motor Co. for the first time when between 4,000 and 5,000 workers laid down their tools today and walked out of the company's plant at Chester, Pennsylvania, as a protest against the recent order of the company shortening working hours from a five- to a four-day week. Spokesmen for the strikers said the four-day week with a minimum wage of 50 cents an hour had reduced wages to \$16 a week. They demand a five-day week with a minimum wage of \$5 a day.



## Keeping Peace: Governments Are No Help

By Barbara Tuchman

**GREENWICH, Connecticut** — Armaments are not the cause of war; they are the instrument. The intentions behind them are the cause. These may be expansion — territorial or ideological or both — paranoia, master-race delusions, fear, old rivalries and hatreds or any combination of the above, but some human mental-cum-emotional process must take place. Armaments, whether nuclear or conventional, do not trigger themselves nor (contrary to popular fears) go off by accident. Active intent must be present.

Recognition of this obvious, if sometimes overlooked, fact suggests that if we are to prevent war we must find or develop some form of political accommodation with the nation we perceive as the major threat. Or, failing that, some firm, consistent national policy, steadily pursued, which can endow us with the steadfastness to wait out in nonbelligerence the paranoid phase in the Soviet Union's history, no matter how long it takes.

Accommodation has now, of course, been made infinitely more difficult by the affair of the Korean airliner, both by revealing the extremes of Soviet paranoia and by exciting the nerves and bowlers of Red Scare and raising the doubts of even reasonable people. How deep the effect will be or how long it will last one cannot know, but whatever the case, the necessity remains of some minimum basis for nonbelligerence or co-existence, for without it any meaningful arms control or reduction will be unachievable.

While nations are mutually hostile and distrustful, they are not going to disarm or seriously reduce their arsenals. Throughout the 20th century's many efforts since the first Hague Disarmament Conference of 1899, control of war in the form of disarmament or limitation of arms has been a fruitless effort.

The League of Nations' efforts during the 1920s and '30s repeatedly foundered on the issue of security before disarmament. No nation was prepared to sacrifice a weapon without the assurance of "security." Even the Encyclopedia Britannica in its latest edition was shaken out of its usual composure to the outspoken admission that the effort for disarmament in our time has been "spectacularly unsuccessful."

The failure suggests that we should try another way. Control of nuclear

war is too serious a matter to be left any longer to governments. They are not going to get it for us; in fact, they are the obstacle. As President Eisenhower recognized in that oft-quoted remark, "People want peace so much that one of these days governments had better get out of the way and let them have it."

Today, the widespread fear of nuclear war may be a new element that will make the difference. It is the only motive power that could compel us toward the control of war that all the efforts of the last 80-odd years have not secured. It is an instrument, moreover, in the hands of the public.

Governments are, of course, made up of human beings who know fear no less than ordinary mortals. But the trouble with governments is that they are moved by too many other considerations. Policy-makers become trapped in illusions of power, individual status-seeking and self-image, vested interests, ideologies. As a result, fear has no room to energize common sense. Governments, I have concluded, cannot be looked to for genuine disarmament or meaningful arms control.

Let us acknowledge it: The American and Soviet governments have no real desire to limit nuclear arms. They go on talking about it, as they are now at Geneva, and this is useful because it keeps the dialogue going, but the intention behind the talks is questionable.

The two sides have got themselves into such a bind of mutual suspicion that they cannot divest themselves of a single missile. That will take a revolutionary change of attitude.

The principle necessary for such a change was stated by Salvador de Madariaga of Spain, chairman of the League of Nations Disarmament Conference of the 1930s. Summing up his experience, he wrote in his memoirs that the causes of the quarrel must be eliminated first before disarmament can take place.

"The trouble with disarmament," he wrote, "was that the problem of war is tackled upside down. . . Nations don't distrust each other because they are armed; they are armed because they distrust each other. And therefore to want disarmament before a minimum of common agreement on fundamentals is as absurd as to want people to go undressed in

winter. Let the weather be warm, and people will discard their clothes readily and without committees to tell them how to undress."

Mr. Madariaga's metaphorical warm weather is now further off than ever. So nuclear fence sitters and other arms control movements must maintain their conviction and their impetus as a means of keeping pressure on government. Regardless of all the arguments for and against freeze and kind of deployment and decoupling and counting warheads or missiles, these complexities are essentially immaterial. The ultimate objective must be kept in view: not to control weapons per se but to control war.

Through existing anti-war organi-

zations, national and local, statewide and town-based, myriad in variety and membership, the public voice must continue to make itself heard. Throughout Europe and the United States it has been growing; it must not now falter or fade. It is not united nor a consensus (the only consensus in a democracy is that of the grave) but it is the only check we have on the ineptitude of governments.

One lesson has been learned, at least in the United States, since Vietnam: The executive cannot conduct a war without public support or against the national wish. The course we take rests with the people and their votes.

The writer, a Pulitzer Prize-winning historian, contributed this column to the *Greenwich* (Connecticut) *Time*.

## In Dealing With Russia, Silence May Be Golden

By William F. Buckley

**NEW YORK** — It is a pity in one way, that Andre Gromyko will not be coming to New York where he might be made to feel a little of the public disfavor he and his colleagues have cultivated by their insouciance in the matter of knocking 269 passengers down over the Sea of Japan.

If Mr. Gromyko had wanted to come, he could have arrived by military airplane, and we could publicly have pledged not to shoot him down.

Now, it is being said that the rupture with the Soviet Union is not something likely to be made whole before the next election; that it could extend for months and cause a real break in relations between the two countries. All of this is said in a spirit of trepidation.

And this is a good moment to ask: Why? Why do we need the hectic diplomatic activity we have been carrying on with the Soviet Union roughly since World War II? If John Maynard Keynes were commenting on it, he might make the point that this is the diplomatic counterpart of pyramid-building — a way of keeping our diplomats employed. But of what other use has it been?

Suppose, to use an analogy, that during the past 20 years you had risen

early to water a row of plants in your garden, which then went on to flower fruitfully, causing you from time to time to redouble your efforts, confident that the more water the plants got, the more prodigiously they would fructify. Then one day you became ill and were bedridden for six months. When released from confinement, you drag yourself feebly to your garden and there, with astonishment, you see a veritable fairland of flowers!

I do not suggest that, in dealing with the Soviet Union, we will ever see a fairland of anything at all. But here is something we should remind ourselves of. Everyone fosters his own superstitions, and one of America's most confident superstitions is that talking with the Soviet Union produces peace and quiet. It doesn't.

Ask U. Alexis Johnson, who met several hundred times with representatives of the Chinese communists during the '50s and '60s trying to explore the question of Americans missing in Korea. Ask Henry Kissinger, who met two dozen times with North Vietnamese in Paris, only to receive the same lecture at every meeting. . . . Then, one day the Chinese Communists were ready to meet with Mr. Nixon and proceeded to do so. And the North Vietnamese one day decided they would make a deal with Henry Kissinger and proceeded to do so. And maybe one day Mr. Gromyko will decide to make a deal with the American disarmament negotiator Paul Nitze — at which point he will proceed to do so. And that moment will come irrespective of whether it is preceded by parades of meetings in Geneva, at the UN, in Washington or in Moscow.

What is it that we want? Same old thing, peace with security. Why do we need to meet with them about this? We have said we would disarm to the extent we can do so without jeopardizing our security or that of our allies. Why is that so complicated?

If they want to say that one Backfire bomber equals one and three-fourths B-52s, or vice versa, let them say it. We can respond telegraphically, or through intermediaries. Meanwhile, we have urgent business ahead of us, namely, to deploy in Western Europe missiles that substantially counterbalance the stuff the Russians have been planting there during the months and years they have been engaging our attention at the diplomatic gaming tables.

Universal Press Syndicate.

## LETTERS TO THE EDITOR

### View From Manila

Regarding "Secretly, Filipinos View Aquino Tapes" (IHT, Sept. 14):

Robert Trumbull's article makes it appear that the Philippine government is doing everything to stop the free expression and circulation of ideas. As Mr. Trumbull can attest, he and his like have had the run of our country all this time, fomenting partisan passions to their hearts' delight.

Meanwhile, opportunists freely sell videotapes, tabloids and reprints that detail the hatchet job that the world media have done on the government of President Ferdinand Marcos, especially since Aug. 21. It now appears that the ghosts in Western media are disappointed and cannot figure out

why Mr. Marcos's government did not fall on Aug. 21 — or on Sept. 1, the day after the funeral of Benigno S. Aquino Jr.

The Filipinos, for all their easily aroused emotions, are also pragmatic. Many of them are outraged by the use which foreign media have made of this tragedy to denigrate their country. They know that Mr. Aquino, with all due respect, was just another political leader — certainly better than most but now, regrettably, part of history — and that no one can better deal with the fallout occasioned by his death than Mr. Marcos.

It is not our government's survival that is at stake. It is the survival of our nation, the continued well-being of the Filipino people. Instead of

gloating and chortling over our government's imminent downfall, ask yourselves this: What good was accomplished by all the changes of regime that the media abetted and cheered on, from Vietnam to Iran, and now, Central America?

TEODORO Q. PENA,  
Minister of Natural Resources,  
Manila.

### A Firm Hand in Beirut

Regarding "For the Marines in Beirut, It's Mission Impossible" (IHT, Sept. 21) by Ze'ev Schiff:

Mr. Schiff's analysis of the U.S. position in Lebanon is unduly defeatist, an attempt to sell appeasement to the United States. It is perfectly pos-

## The Sound, The Fury, The Noise

By James Reston

**WASHINGTON** — President Reagan is getting so much noisy advice these days that he must wonder occasionally whether he was wise to get a hearing aid.

In the past, the babble of voices probably sounded to him like distant thunder from the right and left, but now if he listens, he can hear what they are saying, which is bound to be confusing.

On the one hand (or ear), his old conservative buddies, to whom he owes so much, are shouting at him to be tougher on the Russians.

On the other, the Democrats, to whom he owes so little, are praising him for his patience and moderation in dealing with the Russians on the control of nuclear weapons.

This is the sort of thing that makes presidents want to cut wood and ride horses. It is hard enough to be criticized by your friends, but intolerable to be praised by your opponents.

Yet the president seems to have figured out a way to juggle his dilemma. One day he speaks softly and waves his big stick, and the next, he speaks loudly and waves a feather. And this infuriates everybody but the American people, who like him even when they are not quite sure what he is doing.

As a short-range or presidential campaign strategy, this is not bad. It keeps everybody off balance. Nobody knows whether he is going to run or pass on third down. The Russians are afraid that he may be as reckless as they are. The allies are unsure what to make of him, or what to do without him. Same with the Republicans. And the Democrats have so many problems of their own that they cannot think about Mr. Reagan's, and very often cannot think at all.

But there comes a time — and it is not far off — when the president has to stop playing political games and decide to run or not run, and, if he runs, determine a policy.

In a way he has decided the first question by not deciding it. He has already delayed so long about his intentions that he has put Vice President George Bush, the majority leader in the Senate, Howard Baker, Senator Bob Dole of Kansas, and Representative Jack Kemp of New York, among others, on "hold" — to pull out now would really leave the Grand Old Party in the lurch.

That theme he can hear, loud and clear, with or without a hearing aid. But there is another theme that began with a murmur but is getting louder as the presidential election campaign approaches.

This is not only that he should run again, but that he should run, not against Fritz Mondale or John Glenn, but against the Russians; that they may be his enemy in the world with their savage stupidity, but in the presidential election of 1984, they may be his best hope for re-election.

For Ronald Reagan, this must be a tempting and alluring political strategy, and it might very well work. After all, in the tragedy of the Korean plane, the Russians confirmed all his warnings about the "godless Russians" and their "evil empire."

Also, if you came into the White House promising to balance the budget by reducing services for the poor and cutting taxes for the rich, and then wound up with a \$200-billion deficit, you should not be surprised if your campaign managers want to change the question.

After all, Mr. Reagan's favorite question in the last election was whether the people felt more secure and better off than they did four years earlier. This is not a winning question now. But if he asks whether they want to abandon him in the middle of his fight with the Russians, that might fly at the top of the pole.

But if he turned the campaign into an anti-Soviet crusade, he would have to deal with the consequences: four more years of the nuclear arms race, with larger military budgets, a divided Congress, an embittered alliance and a frightened world.

This is not the sort of thing most folks would like to do in the last years of their life, and it is not Mr. Reagan's style. He is not really a warrior, though he likes to play that role. He could easily stumble into a serious confrontation with the Russians, but he would not plan it, even if he thought it would help him.

Political managers, however, think primarily about winning elections rather than about governing a country or easing the tensions in a hungry and troubled world; so there will be a temptation.

A lot will depend on the advice he takes, and how he uses his new hearing aid. That old publicity saint, Barney Beruch, thought at the end of his life that hearing aids were useful. "You can turn them up," he said, "when people are talking and shut them off when people are talking nonsense. The problem is to decide which is which."

The New York Times.

LIONEL BLOCH,  
London.

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# "Peace, commerce and honest friendship with all nations, entangling allegiance with none."

THOMAS JEFFERSON

in American Declaration of Independence.

The Honourable Mrs. Indira Gandhi, Prime Minister of India, will address the United Nations General Assembly in her capacity as Chairperson of the Non Aligned Movement on Wednesday, September 28.

Mrs. Indira Gandhi's presence in the U. N. Assembly testifies to India's fundamental endorsement of international cooperation and to its recognition of the seminal role which the United States is destined to play in the preservation of global peace and the development of global prosperity.

From a nucleus of twenty-five in Belgrade in 1961 NAM has developed into a movement of ninety-nine members consisting of nations widely dispersed throughout the globe. The diversity this group represented, geographical, cultural, political and economic was and is a fact of Nonalignment, inherent in its character from its earliest beginnings. It has dedicated itself to the principle of coexistence and resolution of problems through peaceful negotiations.

Basic to this composite objective is a policy of cultivating the closest possible relations with all nations, irrespective of ideology, and in the fullest spirit of nonalignment.

The universality of this spirit has not been better expressed than in the words of Thomas Jefferson, one of the authors of the American Declaration of Independence and a founding father of the United States. "Peace, commerce and honest friendship with all nations, entangling allegiance with none"

Indo-US relations, by the very frankness with which they have been conducted by both sides, have had their ups and downs. But these have been the unavoidable fluctuations inseparable from a dialogue between two major democracies. Underlying occasional differences there is a continuing sense of a shared commitment to democratic ideals.

About one-sixth of the world's population lives in India, making it the largest democracy in the world.

Yet, as independent India's career has clearly shown, it is not numbers



alone but its undeviating attachment to the democratic system that has been the basis of its survival and achievements. Within the framework of international cooperation India has pursued a policy of self reliance.

Although it is a country in a hurry in the achievement of its economic goals it has striven consistently to reconcile development with the freedoms and rights of a democratic people.

Since Independence, though much has yet to be accomplished, considerable progress has been achieved in such areas as agriculture, industry, engineering and technology. INDIA is today the tenth largest industrialised country and has progressively developed its capacity to fight poverty which is the top-most priority in all its policies.

In this task as much as ninety percent of the resources for development has been mobilised from within India and despite the birth rate, the struggle against which continues, self-sufficiency in food has been achieved.

Specifically India has striven in recent years on improving the climate of foreign investment. It has provided a wide range of incentives and liberation is under constant review. In the result there has been a steadily increasing scope for economic collaboration and a responsiveness to India as an investment

market that promises a great deal for the future. The objective has been to provide those inducements which potential investors can properly expect.

India has come a long way in technology and technical education. Its actual and potential capacity in this field has been amply demonstrated by the number of highly qualified and successful Indian technologists and scientists in the United States.

Within India is a corps of 2.5 million scientists, including atomic scientists and technologists, participating directly or indirectly in the struggle for progress, security and the abolition of poverty. The facts and figures of Indian achievement and of what remains to be achieved speak for themselves.

For India and NAM, which Mrs. Indira Gandhi represents in her dual capacity as Chairperson of the movement and the Prime Minister of India, three dominant concerns are the search for peace, the search for friendship, and the search for economic cooperation.

Nothing can be more pragmatic than a preoccupation with development which simultaneously both demands and promotes peace. It is this outlook which India within NAM and in the global context has tried to strengthen.

She led her party to victory in the general election of 1967 and 1972; in 1977 she lost at the polls, but the nation recalled her to office in 1980. Her aim for India is to achieve growth with social justice. For the world it is one of peace, friendship and abolition of disparities among nations.

Jawaharlal Nehru, builder of modern India, related the direction and targets of India's foreign policy to the dominant needs of the internal situation at home; and it is this policy which his successor, Mrs. Indira Gandhi, continues to sustain within the democratic framework.

Mrs. Gandhi's brief is, as it was her father's, that "peace and freedom are indivisible and the denial of freedom anywhere must endanger freedom elsewhere".

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## ARTS / LEISURE

## A Future for a Tuscan Villa

By Henry Kamm  
New York Times Service

FLORENCE — Many years hence, Sir Harold Acton hopes, New York University will open a new campus that it will have inherited from him, far from Washington Square.

It will comprise five splendid Renaissance or Baroque villas and a great, formal Tuscan garden mixing greenery with statuary. Between them there will be olive groves and vineyards on slopes with splendid panoramas of the domes and steeples of Florence.

For the time being, Sir Harold, a sprightly man of 79 years, lives in the main villa, La Pietra, at the northern edge of the Tuscan capital, and looks and acts as though the university will have to wait for a long time to take possession of the property he has bequeathed to it.

Sir Harold, who described himself fittingly in the titles of his two volumes, "Memoirs of an Aesthete" and "More Memoirs of an Aesthete," intends to spend many more years preserving, restoring and displaying the splendors of the estate, art and library assembled by his father, Arthur Mario Acton.

The request to the university's Institute of Fine Arts arose from Sir Harold's determination to preserve the unity of what is in itself a work of art. It is a 60-room country house and garden built in the 15th century and transformed into its present state 200 years later. In addition there is his great collection of pre-Renaissance and early-Renaissance painting, sculpture and art-objects, as well as a choice library of books and manuscripts.

When Sir Harold looked for an institution that would undertake to maintain the establishment intact, his own university, Oxford, where he attended Christ Church after his Eton years, was not interested. "They're so concerned with administering what they have, they wouldn't have anything else," Sir Harold explained.

Leaving the property to Florence was out of the question, he said, because the Italian authorities cannot afford to maintain such gifts. Sir Harold feels close to America because his mother, the former Hortense Mitchell, was the daughter of William Hamilton Mitchell, a Chicago banker — "that's where the money came from," he explained — and he considers the university's Institute of Fine Arts the finest in the world.

The university was "very keen on the idea" when Sir Harold raised it in the 1960s. He has received an honorary doctorate from the university, and the Florence fine arts authorities are "very happy," he said, telling him that, given their

lack of money, "it was the best thing I could have done."

What future students and teachers will have as their setting is a three-story mansion in Tuscany's honeyed yellow stone, enhanced by green shutters. Its elegance lies in its sturdy simplicity of line, relieved by Baroque decorative flourishes in the 17th-century remodeling. A long cypress-lined alley leads from the gatehouse, which is on a heavily traveled street, to the serenity of the villa.

The grand rooms lie off an entrance hall as high as the mansion that centers on a fountain surrounded by paintings and tapestries. Library and dining room still have the vaulted ceilings of the Renaissance. Against their walls paintings by precursors and students of Giotto and Romanesque sculptures look as though they had always been there. A magnificent polychrome wooden Buddha of the 13th- to 14th-century Yuan period as well as some carpets are reminders of Sir Harold's Chinese days.

Paradoxically, for a man born in a Tuscan villa surrounded by an art collection whose every piece he loves, Sir Harold has one greater love. "I'm very, very fond of Tuscan art, the finest in Europe, don't you think?" he said. "But nearest to my heart is Chinese art."

Pointing to a colomnade at the bottom of the garden, which his father converted into a formal Italian design from a proliferating English garden fancied by the Italian owners, he noted that he had had it rebuilt recently to prevent its collapsing. "I'm keeping the place in

good shape for New York University and the future," he exclaimed with the enthusiasm of a man fulfilling a high vocation.

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The entrance foyer of Sir Harold Acton's villa La Pietra.

## Variations on the Wine Bar

By Frank J. Prial  
New York Times Service

PARIS — Wine bars are all the rage. Everyone — well, everyone who drinks wine — loves them. They offer wine by the glass, cold cuts — which they call charcuterie — and the companionship of people who share one's, er, values.

What could be wrong with that? And yet... there is something precious about wine bars. There's something off-putting about bartenders who explain that the wine tastes the way it does because the must was centrifuged rather than filtered.

Bartenders are supposed to talk about religion and politics and inebriated wives. But this business of announcing, "Emile Peynaud thinks the chateau's second label is better than the first." What do you reply to something like that?

The trouble with wine is that it's discussed more than it's enjoyed. And wine bars are perfect settings for all this babble. They encourage it. Thus, it should come as no surprise to discover that the wine bar as we know it is an English invention. The Brits have always been terribly serious about wine. It goes with their role as connoisseurs and

critics of wine rather than as producers and heavy consumers.

Wine bars swept London in the 1960s. Some cynics say the rise of wine bars coincided, sadly, with the decline of British beer. In the 1970s, the idea jumped the Channel and caught on in and around Paris. The first English-style wine bar was the Bistrot à Vin at La Défense, the west office and apartment complex west of the city. A while later, Willy's appeared in Rue des Petits Champs near Place des Victoires. Both are very serious about wine and cater to a youngish crowd, mostly French.

A recent addition to the Paris scene, much in the same genre, is the Blue Fox, in the charming Cité Berryer, an alley of shops off Rue Royale, just up the block from Maxim's. The Blue Fox, which is operated by an Englishman, is next door to a restaurant that is a popular Anglo-American hangout, Le Moulin du Village.

These three places are English wine bars transplanted to Paris. There are some French variations on the same theme. The best-known among these is L'Ecluse — possibly because there are four L'Ecluses, strategically located in and near Paris. L'Ecluse is the creation of George Bardawil, a former French journalist. His bars specialize in Bordeaux wines and the types of food that set them off. For example, he sells a lot of foie gras to go with his sweet Santers.

Bardawil was one of the first restaurateurs in Paris to install the Crivinet in his bars. It is a glass-fronted cabinet that keeps as many as 30 opened bottles of wine completely fresh and on tap in an atmosphere of nitrogen gas. Crivinet, or a version of it, is now found in many American wine bars.

Bardawil's places come close to being old-fashioned bars that happen to specialize in wine, but to get the real thing, the wine-bar equivalent of the neighborhood saloon, you have to go out into the business sections of Paris, to streets rarely trampled by tourists' feet.

It's tough to spot one of these places because every little corner place sells wine by the glass. There is a network of good working-class wine bars in Paris, though, and their fans know where they are. One of the best-known is Le Rubis, partly because it is very good and partly because it's downtown, just a few blocks from the Place Vendôme.

Like any good wine bistro, Le Rubis is jammed at lunch. So jammed that in good weather many patrons take their glass and sandwich — if they can get to the bar to order them — out in the street and stand around some up-ended wine

barrels. The clientele is white collar and blue collar and usually includes a couple of Americans and Britons who work in one of the nearby banks. The language is strictly French, but "Beaujolais" and "sandwich" are a workable beginner's vocabulary.

A list of some 20 wines available by the glass is posted on the wall. The price for a large glass of simple Beaujolais is about 75 cents. One of the cru Beaujolais, such as Morgon or Saint-Amour, can cost around eight francs (\$11). Beaujolais is the house specialty, but there are Rhone wines, some Bordeaux and half a dozen wines from the Loire.

There are wonderful homemade rillettes, always on hand. There are good sandwiches, either on a classic baguette or on coarse country bread. There are omelets and small plates of various kinds. Most people eat at the bar and run, but there is a crowded banquettes for anyone with a little more time.

Similar to Le Rubis, but less accessible to midtown Paris, is Caves Melac, a rustic little bistro not far from the Place de la Nation, out in the working-class eastern end of the city. Perhaps because it's also a wine shop, Caves Melac offers more wines by the glass than Le Rubis. Its omelets are more massive and its cheese plate is big enough for three people.

Le Duc de Richelieu, in Rue de Richelieu, is another good downtown wine bistro. For more than 30 years, the favorite wine here has been Fleurie, one of the cru Beaujolais. Paul George, the owner, estimates that he goes through 100 bottles of Fleurie a day. Which is a tribute to the wine and a comment on the amount of business he does.

A noisy, smoke-filled hangout, there are tables in the Duc de Richelieu and a fairly extensive menu for a bistro.

A few other good wine bistros in Paris: Aux Auvergnats, 100 Boulevard Voltaire; Ma Bourgogne, 19 Place des Vosges; Le Relais Beaujolais, 3 Rue Milton; Le Sancerre, 22 Avenue Rapp.

Most of the bistros listed here have at one time or another been awarded the Meilleur Pot, an annual prize cooked up by the promotion arm of the Beaujolais shippers. Like most awards, it's self-serving, though it does indicate a place worth trying. Most bistros that have won the pot offer a waitlisted list of all the other winners. It's a good thing to have if you plan to wander around Paris for more than a day or two. A pot, incidentally, is a bottle used widely in the Beaujolais region and nearby Lyons. It holds a little less than half a liter.

## Barney's, New York: A Family Story

By Hebe Dorsey  
International Herald Tribune

NEW YORK — Barney's, which stocks 40 different kinds of tuxedos, attracts Wall Street bankers, young men on the rise and such real-estate tycoons as Donald Trump and Harry Helmsley. A banker who did not wish to be quoted called Barney's "the smartest men's retailing operation in New York" — and, believe me, it's tough competition, adding, "I admit I'm too lazy to go down to 17th Street, but a lot of my friends do."

For Barney's, which started 60 years ago as an out-of-the-way discount clothing store, success and prestige came via the classic all-in-family formula. Its founder, Barney Pressman, knew how to select quality merchandise from jobbers and bankruptcies sales. He attracted a better and better clientele, a fact his son Fred used to persuade European designers — including Pierre Cardin, Hubert de Givenchy and Carlo Palazzi — to design special lines for the store.

Fred's son, Gene, who joined the company 10 years ago, when the store was making \$30 million a year (it is now making double that), is credited with updating the store, adding high fashion and attracting younger customers. He brought in the new wave of European designers such as Gianni Versace, Cerruti and Giorgio Armani, as well as the avant-garde Japanese, whom he considers stronger in menswear than in women's wear.

Barney's is still very much a family business. Fred is president and deals with everything, even advertising, including Sarah Moon's sophisticated television spots in French with English subtitles. His wife, Phyllis, is concerned with display, but her favorite domain is Chelsea Passage, a recently added section devoted to gifts, antiques and home furnishings. Gene, 33, handles public relations, and his younger brother, Robert, 29, is in charge of finance.

Barney, the crusty grandfather and founder, lives in — where else? — Miami. "He's one of those old merchants with an indomitable spirit," said Fred. "He calls in every day, has to have all the facts, then he gives me a hard time."

Gene, who flashes a Kennedy-like smile, cuts the highest profile. Raised in Westchester County and a prep-school product, he nevertheless has a New York street-

smartness about him. Tense and dark, attractive in a fine-edged, razor-sharp style, he is a study casual dressing. But his shapely moccasins tell you the man is a worker.

It was Gene who suggested adding a women's floor in 1981, carrying his idea out with taste and a strong point of view. The selection is small but impeccable, including such names as Missoni, Chloé, Alaïa, Sonia Rykiel, Versace, Armani and, among the Americans, Geoffrey Beene, Zoran, Shamask and Ralph Lauren. Last week Luciano Soprani came from Milan to introduce his Basile fall line.

The women's area, or the Women's Duplex, was designed by Peter Marino, who is also working on a new Barney's women's store, to be opened next year, in six brownstones separated from the men's store by the Chelsea Passage.

Barney's success, according to Gene, is due to several things. "One of them is that because we're out of the way, we feel we have to be twice as good as everybody else. People are willing to come, but once they come, they expect a lot. You better damn well have it or they're not coming back."

Barney's also makes it easy for men to shop there, Gene thinks.

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Fred, left, and Gene Barney.

"Most men's stores get themselves into trouble because they try to be too much of everything to everybody. We try to be specific on certain areas so that the Wall Street customer and the avant-garde type won't run into each other. But we don't try to make the store too glamorous, because men don't care about fashion as such, they care about looking nice. They care about quality, they care about service, they care about being comfortable and they care about not being aware of what they're wearing."

For Fred, "the backbone of our business is still service. The staff is very high quality, we give both men and women fine attention. We have 700 people working in the store, including 175 in-house tailors. We see ourselves as clothiers."

Barney's has just changed its title to "Barney's New York" — another step in the store's expansion. The women's store should bring in an additional 30 percent in revenue, but after that, the Pressmans feel that they need to go outside New York — possibly to Los Angeles and Texas.

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NYSE Most Actives					
Symbol	Vol.	High	Low	Close	Chg.
IBM	2,200	240	238	239	+1
AT&T	1,800	150	148	149	+1
GE	1,500	110	108	109	+1
Amgen	1,200	120	118	119	+1
Amgen	1,100	110	108	109	+1
Amgen	1,000	100	98	99	+1
Amgen	900	90	88	89	+1
Amgen	800	80	78	79	+1
Amgen	700	70	68	69	+1
Amgen	600	60	58	59	+1

Dow Jones Averages					
Index	Open	High	Low	Close	Chg.
Indus	1,261.28	1,272.72	1,252.54	1,267.77	+1.47
Trans	582.91	590.48	572.18	582.44	+1.27
Util	134.15	135.57	132.43	134.76	+1.23
Comp	311.2	315.19	305.19	310.74	+1.23

NYSE Index					
Composite	High	Low	Close	Chg.	Vol.
Indus	1,272.72	1,252.54	1,267.77	+1.47	1,800
Trans	590.48	572.18	582.44	+1.27	1,200
Util	135.57	132.43	134.76	+1.23	1,000
Comp	315.19	305.19	310.74	+1.23	900

NYSE Diaries					
Advanced	Declined	Unchanged	Volume	High	Low
1,261	1,267	1,267	1,267	1,267	1,267
1,261	1,267	1,267	1,267	1,267	1,267
1,261	1,267	1,267	1,267	1,267	1,267
1,261	1,267	1,267	1,267	1,267	1,267

AMX Diaries					
Advanced	Declined	Unchanged	Volume	High	Low
1,261	1,267	1,267	1,267	1,267	1,267
1,261	1,267	1,267	1,267	1,267	1,267
1,261	1,267	1,267	1,267	1,267	1,267
1,261	1,267	1,267	1,267	1,267	1,267

NASDAQ Index					
Composite	High	Low	Close	Chg.	Vol.
Indus	1,272.72	1,252.54	1,267.77	+1.47	1,800
Trans	590.48	572.18	582.44	+1.27	1,200
Util	135.57	132.43	134.76	+1.23	1,000
Comp	315.19	305.19	310.74	+1.23	900

AMX Most Actives					
Symbol	Vol.	High	Low	Close	Chg.
IBM	2,200	240	238	239	+1
AT&T	1,800	150	148	149	+1
GE	1,500	110	108	109	+1
Amgen	1,200	120	118	119	+1
Amgen	1,100	110	108	109	+1

Dow Jones Bond Averages					
Bonds	High	Low	Close	Chg.	Vol.
Indus	1,272.72	1,252.54	1,267.77	+1.47	1,800
Trans	590.48	572.18	582.44	+1.27	1,200
Util	135.57	132.43	134.76	+1.23	1,000
Comp	315.19	305.19	310.74	+1.23	900

12 Month High/Low Stock					
Symbol	High	Low	Close	Chg.	Vol.
IBM	240	238	239	+1	1,800
AT&T	150	148	149	+1	1,500
GE	110	108	109	+1	1,200
Amgen	120	118	119	+1	1,000
Amgen	110	108	109	+1	900
Amgen	100	98	99	+1	800
Amgen	90	88	89	+1	700
Amgen	80	78	79	+1	600
Amgen	70	68	69	+1	500
Amgen	60	58	59	+1	400

12 Month High/Low Stock					
Symbol	High	Low	Close	Chg.	Vol.
IBM	240	238	239	+1	1,800
AT&T	150	148	149	+1	1,500
GE	110	108	109	+1	1,200
Amgen	120	118	119	+1	1,000
Amgen	110	108	109	+1	900
Amgen	100	98	99	+1	800
Amgen	90	88	89	+1	700
Amgen	80	78	79	+1	600
Amgen	70	68	69	+1	500
Amgen	60	58	59	+1	400

12 Month High/Low Stock					
Symbol	High	Low	Close	Chg.	Vol.
IBM	240	238	239	+1	1,800
AT&T	150	148	149	+1	1,500
GE	110	108	109	+1	1,200
Amgen	120	118	119	+1	1,000
Amgen	110	108	109	+1	90



# NORDIC BANKING AND FINANCE

A SPECIAL REPORT

TUESDAY, SEPTEMBER 27, 1983

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## Operations Abroad: Consortium Bids Are on the Decline

STOCKHOLM — Commercial banks of the five Nordic countries are undergoing a clear change of attitude on the subject of consortium bank participation. Their appraisal stems from a growing desire to strike out alone in foreign banking transactions rather than to pool resources in joint ventures.

As in the case of most international banks, Nordic banks, as they grow in size and gain in stature, prefer to assume greater control and contribute more profits to the parent company by setting up their own overseas operations. But the trend away from consortium banking is felt more in some international banking centers than in others, where the notion of joint ventures is still regarded as a useful tool in international banking. A case in point is London.

"A restructuring of the consortium idea seems to be something that is happening in London," said Jan Ekman, head of Svenska Handelsbanken's central international division in Stockholm. If the market share of Eurocurrency lending in London is taken as a measure of banking importance, where in 1974 consortium banks represented an 8-percent share, in 1982 they represented 4 percent, a 50-percent drop in market share.

Other foreign banks had outstripped the consortium banks' market share by last year, their branches and subsidiaries have increased more rapidly, from 164 in 1974 to 347 in 1982, whereas the number of parent banks holding stakes in London consortium banks has dropped over the same period from 91 to 70.

Signs of the reappraisal are best illustrated by recent restructurings in two of the oldest London-based Nordic joint ventures. In August, Den Norske Creditbank, Norway's largest commercial bank, announced it was buying out the other three shareholders in Nordic Bank, which was founded in 1971 and was jointly owned by Copenhagen Handelsbanken of Denmark, Svenska Handelsbanken of Sweden, Kansallis-Osake-Pankki of Finland and Norske Creditbank.

The move followed last year's decision by Svenska Handelsbanken to set up its own London operation, Svenska International, as a branch of its Luxembourg subsidiary. Under domestic Swedish banking regulations, Swedish banks acting abroad are not permitted to establish full-fledged branch offices overseas.

Just over a week later, in early September, Sweden's Skandinaviska Enskilda Banken was increasing its shareholding in Scandinavian Bank from 37 to 45.7 percent after the decision by the joint venture's two Danish shareholders to withdraw. One of the Danish banks, Den Danske Bank, which held a 14.3-percent share in Scandinavian Bank, opened its own London branch last year. "Taking this step, I think, is proof that we are not going to break up the consortium," said Carl Olsson, deputy chairman of Skandinaviska Enskilda, which will be the largest single shareholder in Scandinavian Bank.

Bankers with links to the two London-based joint ventures, which since they were set up have grown into the largest of all the Nordic consortium banks to rank among the 20 biggest banks in the Nordic region, said that the London consortium operations remained an integral part of their international business and would continue to do so, even if restructuring took place.

Both London-based consortiums are actively involved in the foreign-exchange and interbank markets, though the primary task of Skandinaviska Enskilda is to promote and finance Scandinavian-related trade and foreign investment. "Nordic Bank" which is heavily engaged in money market transactions, was granted permission last year to have its bills made eligible for discount at the Bank of England. Scandinavian Bank has its own branches in Los Angeles and Bahrain and subsidiaries in Hong Kong and Bermuda, while Nordic Bank has a similar international network.

Reasons for the reappraisal are manifold and the degree of emphasis differs according to each bank's foreign needs and expansion plans. Hans Paaschburg, a managing director of Privatbanken, Denmark's oldest commercial bank, related his own bank's experience in the field of consortiums this way: "We, in 1971, went into a consortium bank in London — United International Bank — 10 different shareholders with 10 percent each. Later on, we established our own 100-percent bank in Luxembourg and then simply founded a branch in New York. At about the same time, some of the shareholders, banks backing the United International, wished to leave it and offered their shares for sale. Then we went in and said to the other nine that we wished to take it over, which we did, renaming it Privatbanken Limited."

Other Danish banks are following Privatbanken's line. Den Danske Bank established its own London branch and is in its first year of operations; Copenhagen Handelsbanken has plans to follow suit and set up its own subsidiary. So, while some banks in the Nordic area prefer to go it alone by setting up branches or subsidiaries, others prefer to use joint ventures they participate in as a springboard to test the water before taking the plunge. Swedish banks, in particular, constrained by domestic banking regulations, will probably bide their time until the rules are relaxed and will then be in a position to break away from consortium banking and establish their own branches.

Others prefer another alternative. Sweden's state-owned bank, PK-Banken, Scandinavia's largest bank, has struck up a partnership with Norway's Christiania Bank og Kreditfond. In London, the Swedish bank invited Christiania to join its local subsidiary, in Hong Kong the office was converted into a jointly owned deposit-taking company and in Singapore a new merchant bank is in part ownership.

But the consortium venture as a vehicle for international business of Nordic banking is far from finished. Several smaller banks in the region, as they step up their overseas operations and expand into new areas, still regard joint ventures as the safest and best banking route to service their own international profile. "There are new ones [consortium banks] coming up, because for smaller banks — like ours — the costs of setting up an independent operation in London in terms of capital, manpower and business are such that you can't afford it," said Gustav Mattson, general manager at the Bank of Helsinki.

The Finnish bank together with Sweden's Sundsvallsbanken and Norwegian Finansinvest, joined forces last year with Switzerland's Dorn Bank, a subsidiary of the Dornier Group, to take over a London merchant bank, Arthur and Latham, one of the capital's oldest clearing houses. The Bank of Helsinki's London affiliate, Dorn Scandinavia Banking, was reorganized into a holding company, in which the Finnish bank has a 16-percent interest.

Swedenbank and Skopbank, as the Swedish and Finnish national savings banks are known abroad, have been working together for some time and recently announced the creation of a new consortium bank in London. Femoscandia Limited, as the new joint venture will be called, will have initial capital of £10 million. "We have decided to press ahead with the project despite moves by other banks to dismantle their consortia," Skopbank said.

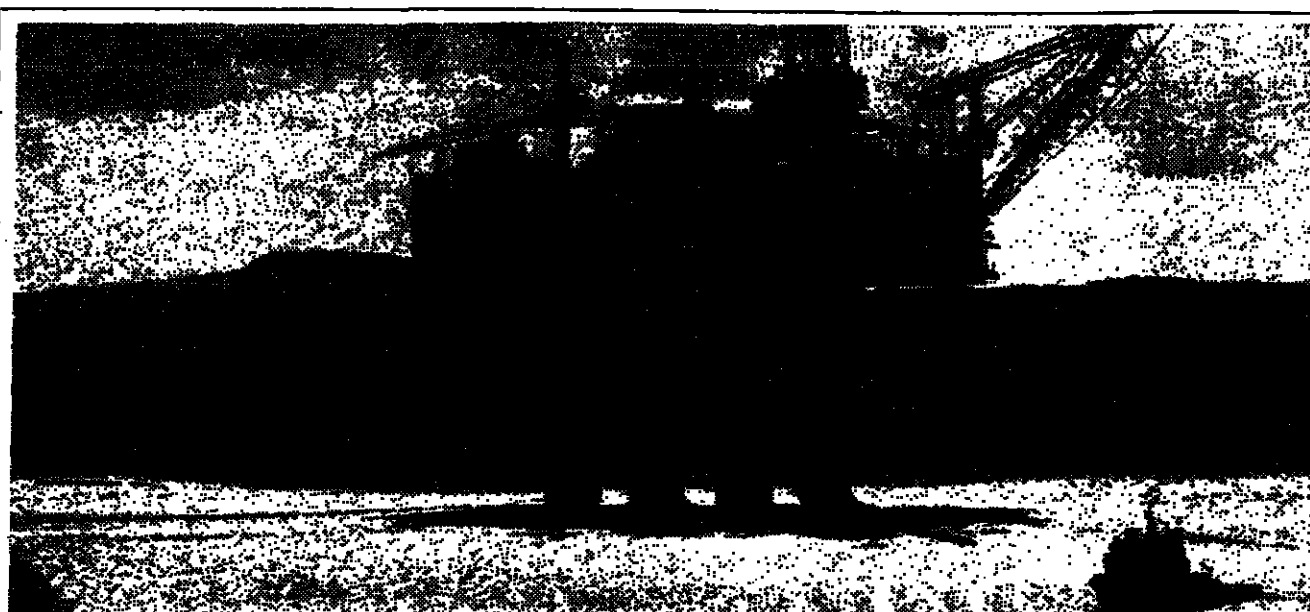
Mr. Olsson of Skandinaviska Enskilda also adopted a cautious line despite the massive growth in the bank's international operations in recent years: "To start a bank today, with the very, very thin margins we have in international lending, with the very high risks the banks have to take in order to get a decent spread, and the management problem, I would say that you have to think twice before you break up a very profitable and successful consortium bank."

But Skandinaviska Enskilda Banken, along with its major competitors in Sweden and elsewhere in the Nordic countries, has not shied away from the idea of going it alone when the situation dictated such a necessity. Last year, it set up its own London-based investment banking business, Enskilda Securities. The operation provides a range of services, including corporate finance, international syndicated lending transactions, currency and interest rate swaps and private placements.

The bank also established a subsidiary bank in New York, Skandinaviska Enskilda Bank Corp., the parent company of Skandinaviska Enskilda Banken International, which began operations at the start of 1981. The Swedish bank's usual partners in other overseas operations, Den Danske Bank and Union Bank of Finland, were thereby compelled to link up with PK-Banken and Christiania to establish a competing New York consortium in the form of American Scandinavian Banking Corp.

"As the Nordic countries' trade links with the rest of the world expand, notably in the Far East, so the banks have felt a need to increase their profile in centers such as Hong Kong, Singapore and Tokyo. In these centers, the Nordic banks on the whole still prefer to adhere to the consortium principle, as in the examples of PK-Banken's and Christiania's Hong Kong and Singapore ventures. Here too, however, some banks are setting up their own operations, as in the case of Den Danske Bank, which last year opened a branch in Singapore."

—MICHAEL METCALFE



Norway's big Statfjord oil platform in the North Sea off Stavanger.

## Norway Continues to Set Oil Records

By Bjorn H. Tretvoll

OSLO — Norway's oil production in July exceeded 700,000 barrels a day for the first time, pushing this North Sea producer toward a record year at a time when most other producing nations are faced with falling production and reduced incomes. At the same time new wells have confirmed the existence of one of the world's largest offshore natural gas fields in the Norwegian part of the North Sea.

Oil production at levels almost 25 percent above last year's and significant exports of natural gas put Norway in the enviable position of having a sizable surplus in its current account and of being probably the only OECD country where the central government is able to present a budget surplus.

The effect of falling international oil prices has been more than neutralized by higher production and a strong dollar. Export earnings from oil and gas for 1983 are expected to reach a record level of more than 60 billion kroner, or close to \$8.5 billion.

This means that the oil and gas sector is responsible for about a third of Norway's total exports. Close to 20 percent of the central government's income comes from this sector.

While such figures illustrate that the oil activities have grown into an important sector in Norway's economy, they also show that securing a healthy development for other sectors still is of major importance for the total performance of the economy. But as the increased oil income has seeped into the Norwegian economy, particularly through higher public-sector expenditures, prices and costs have been pushed upward, weakening the competitive position of the traditional Norwegian industries that have to compete with foreign suppliers. These problem industries have in turn been given different forms of government support in order to keep unemployment down.

The fear of too rapid a pace of structural change in the Norwegian economy, which could have serious effects in certain areas of the country, has been an important factor in Norway's "go slow" policy for oil develop-

ment. On the other hand, the oil industry and those supplying this industry have argued for a more rapid pace of exploration and production, as a means of creating more jobs.

So far the political decision to establish a production limit of 90 million tons of oil equivalents a year has not led to any delays in putting new fields into production as fast as technology and economics have permitted. Last year Norway's production of oil and gas reached 48.9 million tons of oil equivalents. Toward the end of the 1980s production could reach about 70 million tons, while it will not approach the 90-million-ton level before the late 1990s.

All present Norwegian oil production comes from fields in the North Sea, which covers only a small part of Norway's continental shelf. Exploration has proved the existence of both oil and natural gas further north, but not yet in commercial quantities. The international oil industry is showing great interest in the areas off Norway's northern coast where large sedimentary basins could yield significant reserves of oil and gas.

As oil exploration activities move further north and into deeper waters, the development of any finds becomes more costly. The technology required is more complex, and new solutions have to be found. The stakes are high and the risks, both technical and commercial, increase. In such an environment new fields must contain significant reserves in order to warrant the development expenses needed to put it into production.

In such calculations taxation levels play a very important part. Spokesmen for several foreign oil companies have pointed out that present Norwegian tax rules make development of smaller North Sea fields unattractive and might also render larger fields in deep-water areas uneconomic from a company point of view.

The amount of applications to be filed with Norway's Department of Oil and Energy before Oct. 15 deadline for the new concession round will give some indications as to how the international oil industry view the attractiveness of the Norwegian continental

(Continued on Following Page)



Inside the Ekofisk platform.

## Nordic Region Is Rated Highly As Credit Risk

By Michael Metcalfe

COPENHAGEN — At a time when bankers talk of the international debt crisis and the need by several major borrowers in Latin America and Eastern Europe to reschedule their debt, the banking community breathes easily when it turns its eyes on the Nordic countries. There is no fear of Copenhagen, Helsinki, Oslo or Stockholm running behind in their repayments and, although margins may be thinner and in some cases conditions tighter, there is no scarcity of Nordic credits on the market.

Nordic countries continue to be extremely creditworthy, some even more so than nations much larger and industrially more potent than themselves. An illustration of this is to be found in the latest survey of country credit ratings published in the October issue of Euromoney.

Sweden ranks as the most highly rated of the five, in seventh place out of 116 countries, coming just behind Canada and placed before Australia. Norway falls into 13th place, preceded by the Netherlands and followed by Belgium, while Finland is in 16th and Denmark in 17th position. Iceland emerges as 40th, on a par with the United Arab Emirates, ahead of Turkey and behind Egypt.

According to statistics compiled by Morgan Guaranty, Sweden has been the biggest Nordic borrower on both the syndicated Eurocredit and international bond markets this year, raising almost \$2.4 billion equivalent in Eurocurrency credits and \$2.3 billion in bond issues during the first half of 1983. The figure represents a major increase from last year, when Sweden borrowed \$649 million in terms of syndicated loans and \$2.7 billion in bonds during the entire year.

Denmark has also increased its borrowing abroad substantially so far this year, raising \$1.6 billion in syndicated loans and \$961 million in bonds. The first-half figures compare with \$789 million and \$1 billion equivalent respectively for the whole of 1982.

In the case of Norway and Finland, their foreign debt is proportionally much lower, though the Norwegians raised a large amount — \$2.1 billion — in Eurocurrency credits last year, dropping to \$336 million in the first six months of 1983. Finland has not taken up any syndicated loans since 1980, concentrating its lending in the international bond markets, which saw Finland raise \$815 million last year and \$560 million in the first half of 1983.

On the whole, Nordic borrowers are not experiencing much difficulty in raising the amounts they require at the conditions they wish to see. A recent example of fine terms is the domestic sterling credit of the Kingdom of Sweden, which was heavily oversubscribed and which doubled in volume from its original £250 million. Despite the low margin of ½ percent above money market rates for the first two years, rising to ½ percent for up to a further 10, the credit attracted a large number of banks, including about 50 lead managers.

Denmark, which a year ago had the unsettling experience of seeing New York's Standard and Poor's add it to its "Creditwatch" for evaluation of potentially negative developments, has allayed fears over its ability to manage its indebtedness and still commands good terms for its foreign borrowing. "There is now much more room for optimism in the economy and, as the balance of payments current-account deficit narrows and our trade account swings back into surplus, so our foreign borrowing will decline," Finance Minister Henning Christophersen said.

But problem areas remain. Since the start of the decade, Sweden and Denmark have increased the pace of their foreign borrowing to cover the needs of costly welfare states and widening current-account deficits. The net foreign debt as a percentage of gross domestic product has in both countries more than doubled over the last five years, in Sweden's case to nearly 30 percent and in that of Denmark to more than 33 percent. Net interest payments abroad have continued their steep upward trend due to the rapidly rising foreign debt, higher interest rates on international capital markets and the strengthening exchange rate of the dollar. Rising amortization payments reflect the fact that both countries accumulated large amounts of short-term debt in the 1970s, which are now expiring.

However, there are signs that the steep increase in net foreign debt as a percentage of GDP appears to be flattening out. Restrictive budgetary policies in Copenhagen and Stockholm, a deceleration in the growth patterns of public-sector expenditure, and a narrowing of current-account deficits, all point to a slowdown in the rate of borrowing on international capital markets.

Danish government officials believe that the current-account deficit

(Continued on Following Page)

## Social Democrats' Radical Investment Plan Could Alter Swedish Industry

STOCKHOLM — Despite opposition from industry and banking and a general unwillingness among the public, Sweden's Social Democratic government is poised to introduce a radical investment plan that could decide the future of private ownership in Swedish industry.

Plans are under way to set up initially five collectively owned investment funds to buy into Swedish companies next year. Eventually, critics in the opposition party said, the so-called wage-earner funds could wrest control of companies away from private hands and establish new forms of public ownership.

Lars Nabeoth, chairman of the Federation of Swedish Industries, said: "If wage-earner funds are brought in, it will mean the transformation of the Swedish social system since privately owned business enterprises will be taken over. We reject this change."

In a bid to overcome some of the opposition and arrive at a degree of political consensus on the controversial issue, Prime Minister Olof Palme invited both sides of industry and the political parties to take part in talks on the matter this month but the meeting was inconclusive. "Unfortunately, the organizations of industry, the employers, have declined to participate in those talks," said Michael Solhman, deputy undersecretary at the Finance Ministry.

The debate on the funds, which has been going on since 1975, has changed direction many times, not least because of the many revisions put forward by the Trade Union Confederation, known as LO, and the Social Democratic Party. Initial proposals for the

funds were made at the LO Congress of 1976 under guidelines worked out by Rudolf Meidner, a trade union executive. The Meidner Plan, as it came to be known, called for a nationwide establishment of funds, financed by all privately owned firms above a certain size.

These companies would give 20 percent of their profits to a wage-earner collective. The transfer of these profits would be accomplished through the issue of new shares by the companies to a central fund controlled by the country's trade unions. The Social Democrats, during their time in opposition, adopted in 1981 a proposal advocated by the trade unions, allowing the party's national executive to go ahead with the plan. A modified version of this plan was announced by the Social Democratic government earlier this year and entails a new tax of up to 20 percent on net company profits and an increase in the employers' payroll tax.

These sources of income would create investment capital that would be channeled into each of the five regionally based funds. A government working group, set up to submit a blueprint for the funds, recently proposed that a ceiling of 400 million Swedish kroner be set aside annually from the amount of capital flowing into each fund, adding up to 2 billion kroner a year up to 1990. Taking this into account — and assessing the value of quoted companies in Sweden at about 200 billion kroner — share analysts estimated that the funds could buy up to 7 percent of the

exchange-listed portion of Swedish industry by the end of the decade.

The relative size of the funds, which would be able to buy shares in any publicly quoted company on the Stockholm bourse, would make them a formidable investor in the Swedish stock market. At a later stage, Sweden's 24 local authorities would each have such a fund, to be administered by elected committees made up of trade union officials, representatives of local government and politicians, although a formula for the election of these committees has yet to be drawn up. A form of universal suffrage might elect the committee members, once the transitional phase is over, government officials said.

Critics of the funds plan, which has yet to be passed by the Riksdag, argued that the funds, if implemented, would have disastrous repercussions for the stock market and an economy with a large budget deficit and external debt. "The institutional nature of the funds, with centralized decision-making and lack of a profit motive, will make them inefficient, with built-in caution preventing them from becoming a source of venture capital, which is precisely what Swedish industry needs," said an official of the Employers' Confederation.

But LO officials said that the regional division of the funds would lead to greater risk capital being fed into economically or financially depressed regions served by the planned funds. Employers organizations said Swedish industry required increased profitability and not more capital, rejecting the notion of collective

ownership with the argument that employees will not be able to draw any direct benefit from the funds.

"It would be fatal for Swedish industry to have a dominating shareholder with completely alien objectives, other values and a wholly opposed view about decision-making than what is needed if business enterprises are to survive against fierce international competition," said Sven Agrup, managing director of ASEA, a Swedish engineering firm.

But the government has other ideas. Insisting that different viewpoints would be taken into account by the administration, following the talks proposed by Prime Minister Palme, the finance minister, Kjell-Olof Feldt, nevertheless said: "Wage-earner funds will come into being next year; that is the government's stated objective."

One Swedish company is not going to wait for the funds to be introduced. Datatronic, a leading manufacturer of computer programs, announced last month that it would be moving its main operations to the United States to protest the new tax to finance the funds. Whether this initiative will be followed by others, thereby prompting a flight of capital from Sweden, remains an open question. Several companies take the view that the funds' influence on corporate policy will be held in check by the working group's recommendation that the aggregate holding of shares by the funds in any one company should not exceed 49 percent, thereby stopping short of majority control.

—MICHAEL METCALFE

## Foreign Bank Branches: The Focus Is Shifting to Sweden and Norway

HELSINKI — The subject of foreign banks' presence — or lack of it — in the Nordic countries has stirred heated debate in official and commercial banking circles that shows little sign of cooling in the foreseeable future. The willingness of Denmark and, more recently, Finland to allow foreign banks in has shifted the focus to Sweden and Norway, where the advantages of a large industrial base and North Sea oil revenues, respectively, appear to warrant entry of foreign banks as soon as possible.

In Norway, a government-appointed commission recently ruled in favor of foreign banks' establishing subsidiaries subject to strict conditions and rules applying to domestic banks. The government seems likely to approve the recommendations soon.

Sweden's central bank governor, Bengt Dennis, said: "The government has decided to study the whole question of the institutional structure of the credit market in Sweden, including the advisability or feasibility of setting up foreign banks in Sweden, so it's an open issue." A committee appointed by the Social Democratic administration has yet to be fully constituted and has up to two years to report its findings.

The entry of a small number of foreign banks into Finland last year, permitted by a change in the banking law in 1979, helps to illustrate some of the problems and advantages of foreign banks intent on operating in the Nordic countries. Three banks have been allowed to establish subsidiaries, but not branch offices, in Helsinki. They are Citibank and Chase Manhattan of the United States, and the Banque de l'Indochine et de l'Extrême Orient of France. Citibank was the first to obtain a license and has the longest experience in Finland.

"I would say business has developed very satisfactorily, because to start with, Finland certainly is not an Eldorado for foreign banking owing to the very controlled nature of the domestic money market; and the other problem for foreign banks is that the corporate nature of their business is ill-fitting to the tailor-made suit of universal banking in the domestic capital market," said Karl Mannola, vice president and managing director of Citibank's Helsinki subsidiary.

In practice, this means that any balance-sheet lending in markkaa that a foreign bank subsidiary would make in Helsinki would have a negative interest

spread because the bank still has to follow the same leading interest rate guidelines as other banks whose funding comes from the free corporate market where rates are extremely high. The top priority of the foreign banks lies in offering corporate clients the benefits and sophistication of their parents' international services and trading. In this area they have been successful, while also helping to spur competition in the foreign-exchange trading sector.

"We have seen over the past year or so, since foreign banks started in this market, a tremendous cut in margins, especially in foreign exchange and customer business, but it is also true that there have been cuts in the commissions for bank guarantees, for letters of credit, for export-import financing," said Gustav Mattson, general manager of domestic Finnish banking at Bank of Helsinki.

The presence of foreign banks in Finland may also have helped to pave the way for the central bank's decision last year to allow Finnish bank participation in foreign syndication lending and credits where there is no Finnish beneficiary. But the lack of a deposit base such as in the retail banking activities of the

domestic banks, with their access to large amounts of liquidity for use in such areas as the short-term money market, has stunted the growth of the foreign banks.

The twin-edged competitive blade — the wholesale foreign subsidiary bank with the corporate strength of its parent versus the retail domestic bank with its large deposit base — has also been acutely felt by foreign banks in Denmark. Copenhagen was the first Nordic capital to open its doors to banks from abroad, soon after Denmark joined the EEC in 1973. In less than two years, banks such as Bank of America, Chase Manhattan and Standard Chartered were enjoying the privileges and perks of either a full branch bank status or that of a subsidiary.

"American banks and British banks and others have mostly come, first and foremost, to help American daughter companies, American branches; and then, of course, many big Danish companies have had a connection to foreign banks," said Hans Paaschburg, managing director of Privatbanken, who is also chairman of the Danish Bankers' Association. None of the foreign banks has gone into retail business. "It is very

(Continued on Following Page)



## NORDIC BANKING AND FINANCE

Margins Thinner,  
Credit Risk Good

(Continued from Preceding Page)

will be about halved in 1984 to a little less than \$1.2 billion, or 2 percent of GDP, contributing factors being an expected improvement in the terms of trade, a significant reduction in the energy bill and a reduced debt-servicing burden.

Stockholm officials project the current-account deficit to be reduced from about 3.7 percent of GDP in 1982 to around 1 percent of GDP in 1984, though the debt-servicing burden will probably continue to remain relatively heavy. The officials noted that the 16-percent devaluation of the Swedish krona last October and the strengthening dollar added additional burdens to servicing the foreign debt.

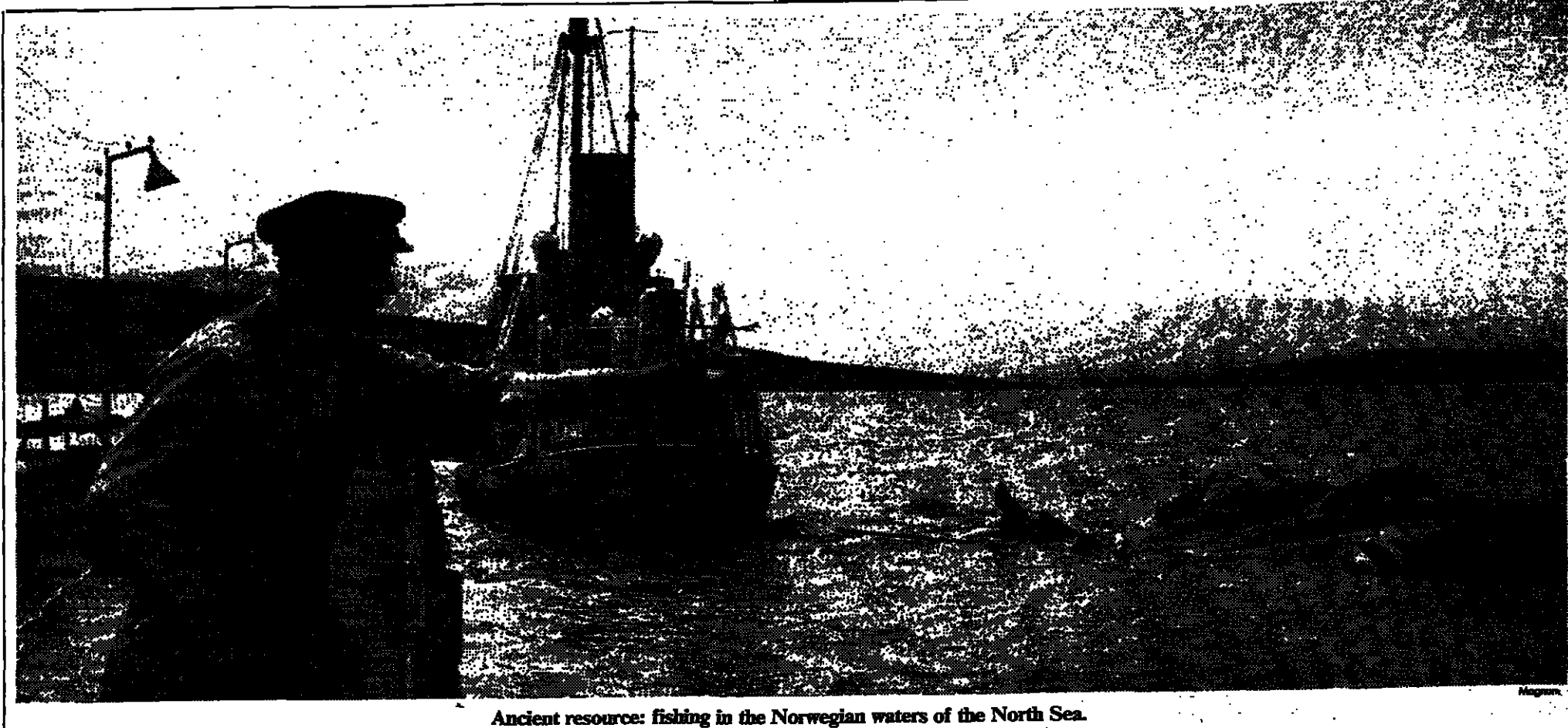
Of the four major Nordic countries, Norway and Finland have fewer problems than their neighbors on the international borrowing markets. In the case of Norway, the benefits of North Sea oil have helped to keep its balance-of-payments current account in modest surplus recently, although a shift into slight deficit is forecast for this year and next, in the order of about 1 percent or less than GDP.

The Norwegian authorities prepared the ground for this eventuality — and the effects of last autumn's devaluation on the debt burden — by heavier borrowing in 1982 than in previous years.

Finland has succeeded in keeping a low borrowing profile on international markets over the last few years, limiting its debt to fixed-interest credits and bonds. Its net foreign debt in relation to GDP grew steadily until 1977, when it peaked at 21 percent, and thereafter it declined to about 14 percent in 1981.

Debt officials in Helsinki explained that the devaluations of last October increased the market value of the debt, raising the ratio to 17 percent. However, debt service charges have been stable during the 1970s and early 1980s and have remained at about 10 percent of current-account earnings.

Finland will raise less than \$1 billion equivalent on international markets this year, it is estimated, though the amount may increase somewhat next year, if the current-account deficit widens slightly, as is anticipated by the government.



Ancient resource: fishing in the Norwegian waters of the North Sea.

## Norway: Groping Toward Recovery in the Non-Oil Sector

By Trond Boerchaug Hansen

OSLO — Ten years after international recession halted a period of unparalleled growth, the Norwegian economy is still groping toward recovery. For much of the second half of the 1970s, it lived on borrowed time as the government, using future oil revenues as security, raised massive loans abroad to stave off the worst effects of the recession. But during the last few years, the country has come face to face with its problems and there are signs that some of them are being solved.

The latest OECD forecasts are not unduly optimistic. In July, the organization said Norway's gross national product was likely to grow by a mere 0.25 percent this year, rising to 1 percent in 1984, and that prices would rise by 8.5 percent this year, compared to 12 percent in 1982 and an expected 7 percent in 1984.

Rolf Presthus, Finance Minister in the Conservative-led center-right coalition government, said these forecasts were too pessimistic. He believes that the "traditional" — that is, non-oil — sector of the Norwegian economy will become considerably more competitive in international markets than the OECD assumes.

Moderate pay settlements in the private sector have led the government to predict that industry will become more than 2 percent more competitive this year, whereas the OECD forecasts a more or less unchanged situation, Mr. Presthus said. Making non-oil industry more competitive is one of the aims embraced by most political parties in Norway, where a large degree of consensus still prevails in economic policy. Another objective is a return to near-full employment, as was the situation until a few years ago.

At present, unemployment stands at 68,000, or 4.1 percent, of the labor force. In many Western countries, this would be considered a fairly happy state of affairs, but Norwegian politicians regard it as very serious. The psychological impact of the figure is perhaps better understood when it is

realized that it represents a 60-percent growth in the number of jobless over the course of a year.

If, however, most Norwegian politicians agree on the general aims of economic policy, there is considerable disagreement as to how to achieve these aims. The "counter-depression" policy of raising large loans on future oil revenues to subsidize non-oil industry and retain jobs had been abandoned before the Conservatives ousted the Social Democratic Labor Party from government in 1981. But Labor, in opposition, still clamors for a policy that will secure employment through higher public-sector spending and increased subsidies to particularly weakened industries, such as shipbuilding.

The Conservatives and their coalition parties, though disagreeing among themselves on certain particular questions, are resolved that the main problems facing industry are production costs and outmoded methods.

"A combination of high wages and low productivity has made our products too expensive to be competitive," said Arnulf Ingebrigtsen, undersecretary of state for industry. "The other main problem is a structural one. Much of our industrial structure is obsolete, which means that we do not produce goods that benefit from today's strongest market growths."

The government is pledged to reduce inflation through austerity measures that include reduced public-sector spending and reducing pay increases to the lowest possible level. To offset this, it has promised tax cuts that it hopes will lead to increased productivity and improved

industrial performance. This, however, is a policy that many Norwegians remain reluctant to accept, as was shown by the poor results for the government parties in recent local elections.

But despite all the problems facing the Norwegian economy, there are bright spots. By 1984, for instance, oil revenues will have enabled Norway to pay off its entire foreign debt. Lower oil prices, while producing fresh problems, have also led to increased activity in making non-oil industries more competitive through research and development and the utilization of new technologies. And the trade union movement, acknowledging its share of the responsibility for reducing unemployment, has given guarded promises for cooperation in reaching moderate pay settlements.

Nevertheless, the problems remain formidable. The country's geography itself, with a thin and scattered population, produces its own difficulties. And Norway's economic fate remains closely linked to that of other Western countries and, particularly, its neighbors — as was indicated by the government's anger at the 16-percent devaluation of the Swedish krona by the Social Democrats last October, which affected Norwegian exports to Sweden heavily.

This, too, is why many Norwegians are skeptical about optimistic statements about economic recovery by government spokesmen. This skepticism was mirrored by a recent cartoon in one of the Oslo dailies parodying Finance Minister Presthus at the helm of a storm-tossed Viking ship, pointing toward a distant landfall and exclaiming: "I swear that this time it's Nesoddtangen [near Oslo] and not America."

NORDIC FOREIGN BORROWING  
(In millions of dollars)

	1980	1981	1982	1983 (Jan.-June)
<b>EUROCURRENCY CREDITS</b>				
Denmark	1,720	1,661	789	1,586
Finland	1,040	n.a.	n.a.	336
Norway	685	713	2,069	2,350
Sweden	1,370	1,867	649	2,350
<b>BONDS</b>				
Denmark	1,125	695	1,019	961
Finland	392	672	815	560
Norway	892	530	832	269
Sweden	3,244	2,050	2,729	2,283

\* Figures not available.

Source: Morgan Guaranty

"Bankers warned of retail challenge"

Financial Times, May 1983

"Natwest to offer cheque account with interest"

Financial Times, May 1983

"Events in the markets can create the need for a new kind of facility which only advanced computing technology can make possible"

The Banker, May 1983

In the past two years the change of pace in the financial industry has been awesome: mortgages from banks, current accounts with building societies. The whole banking structure has altered dramatically to keep pace with customer demand for more flexible financial packages and aggressive marketing from other financial institutions.

It is generally agreed that the key to the required flexibility is technology. The banks with the technological edge will have the competitive edge. The key to survival is in the bank's ability to offer cost effective, innovative services. To do this, the bank must have computer systems which support rapid change, impose no restrictions on marketing and efficiently handle a widely variable workload.

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The control room of the Ekofisk platform.

## Norway Continues to Set Oil Records

(Continued from Preceding Page) An example of this is the recent agreement between the Norwegian government and Phillips Petroleum and its partner to secure a \$2-billion project to increase the yield from the Ekofisk field, Norway's oldest.

The major technological challenges over the coming years are presented by the giant Troll gas field, named after giant creatures in Norwegian fairy tales. With total recoverable reserves approaching 2 trillion cubic meters of gas, the field could become an important source of natural gas for Western Europe from the middle of the 1990s. But as the field is in an area with water depths of around 350 meters and some distance from the main markets, the development of Troll — and the gas produced — will become rather expensive.

This situation presents Norway

with another major challenge: How to find markets for all its gas at prices that warrant the development of expensive fields like Troll and possibly others further North. The prospective buyers on the Continent and in Britain are showing great interest in securing new supplies of Norwegian gas, but it has to be available at prices that make it competitive with alternative forms of energy in the final markets.

## Foreign Banks Are Making Inroads

(Continued from Preceding Page)

expensive and difficult to establish a new branch system," he added. Moreover, to many of the commercial Danish banks' big corporate clients, the foreign affiliates are secondary banks. "In that way, we compete with them, of course," Mr. Paaschburg noted.

In terms of the domestic capital market, the abolition of the ceiling on credit expansion pertaining to each commercial and savings bank, and the imposition of general lending guidelines by the central bank, has led to greater competition among domestic and foreign banks. Under the guidelines, banks attracting more deposits but not those from the money market are in a position to expand their lending more rapidly than average.

The foreign branches, with their lack of a domestic deposit base, are unable to do this and generally view the credit guidelines as discriminatory. From this point of view, one of the foreign banks, Citibank, is contemplating entering the Danish retail business.

If both Denmark and Finland, who have allowed foreign banks in, are feeling a competitive bite in corporate business and foreign-exchange trading, then so are banks in Sweden, where foreign banks' presence is limited to representative offices. "We have a very tough competition from the foreign banks represented here in 15 offices," Curt Olsson, deputy chairman of Skandinaviska Enskilda Banken, said. "You will find that very many of these are very fully staffed and we don't see very much of a difference between what they are doing here as a representative office and as a bank."

"We have the competition in the markets as well and they know that," Skandinaviska Enskilda's executive vice president, Per Åke Harnqvist, said. Sweden's large industrial base and powerful multinational companies, such as Volvo and Electrolux, have provided attractive targets for foreign banks, while the accelerated pace of the kingdom's foreign borrowing in recent years has spurred banks to establish representations in Stockholm.

Another powerful argument in favor of foreign banks being authorized to set up branches or subsidiary offices in Stockholm or Oslo is the notion of reciprocity. If Nordic banks, either in the form of

consortiums or by themselves, are actively engaged in setting up profitable and expanding operations in the foreigners' domestic base, then neither the Swedish nor the Norwegian banking authorities can reasonably keep their doors shut.

"It is a bit of an embarrassing situation to be the only ones, soon the only one together with Portugal, in Europe, because the Norwegians are apparently going to do it," said Jan Ekman, head of the international division at Svenska Handelsbanken. In Mr. Ekman's estimation, the new Social Democratic government's decision to form a committee to look into the subject is "postponing the inevitable."

Mr. Olsson agreed: "In my opinion, I think it's shared by most bankers in Sweden, we can't claim free trade for anything but for banking. In that respect, we have to accept that foreign banks come in with their branches or at least with their subsidiaries."

Swedish bankers, however, stress that foreign banks operating in Sweden must abide by the same strict regulations and controls applied to domestic banks by the central bank. "I can tell you that it is pretty tough to navigate between the beacons and ground that the Riksbank [central bank] and the authorities under the Swedish banking law set up," Mr. Olsson said.

The general consensus among Swedish bankers is that foreign banks, once they are allowed to establish themselves in Stockholm, will not be allowed to hold branch status but will have their activities confined to subsidiaries. The same feeling prevails in Norway. "In the view of the commission, any such establishments ought to be in the form of subsidiaries," the Norwegian central bank wrote in a recent summary on the Oslo banking commission's findings.

The commission, while noting that the establishment of foreign banks must take place in a cautious and controlled manner, did not reach any conclusion about the number of foreign banks allowed entry. But the feeling among Norwegian commercial bankers is that the number will be restricted to up to five initially. The same opinion holds among Stockholm bankers in the Swedish case. "We can't have the market explode; there are only 12 banks in Sweden today and you can't double that number overnight," Mr. Olsson said.

—MICHAEL METCALFE

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## NORDIC BANKING AND FINANCE

# Swedish Economy Moving Toward Recovery, but Doubts Remain

STOCKHOLM — After less than 12 months in office, the Social Democratic government of Sweden's Olof Palme appears to be well on the way toward restoring the economy.

A 16-percent devaluation of the Swedish krona last October has nudged industry into improved competitiveness. Exports are booming, corporate profitability is set to reach record levels and the export-led recovery has inflated the buoyant mood of the Stockholm bourse.

But nagging doubts remain. Unemployment has continued to edge upward, reaching 3.5 percent this year; industrial investment is still at depressed levels, and the budget and current account balance of payments deficits, exacerbated by a rising external debt, show few signs of narrowing. Moreover, inflation could be fueled, firstly, by the effects of the krona devaluation boosting import costs and, secondly, by higher wage demands when next year's round of labor negotiations begin.

The government said in its revised budget for this year that the measures undertaken to date represent a first phase in its policy for steering the economy back on course. "A necessary condition for the success of the new policy is that the high rate of inflation that has prevailed in Sweden for a decade is now broken," the government said. Unless the 10-percent annual rate of inflation is reduced, the positive effects of the devaluation will have been eliminated in a couple of years. "The important thing is to get inflation down after such a measure,"

Michael Sahlman, deputy undersecretary at the Finance Ministry, said. Several leading economists were forecasting inflation of 15 percent this year, the government's own projection was for 11.5 percent, and the latest figures suggest an increase closer to less than 9 percent, helped in part by the fall in international and domestic interest rates, he said.

Restrictive budget policies play an important role in the government's strategy to keep inflation down and reap the benefits of the devaluation. The administration will present a series of fiscal and budgetary measures this autumn involving some withdrawal of business liquidity and, economists said, this would probably include the abolition or reduction of the current 20-percent tax rebate on tax-sheltered mutual funds, or so-called share-saving funds. The funds have proved a boon to investors on the Stockholm stock exchange, but it is felt that the current strength of the exchange would suffice to ride out the impact such a move would have on investment purchases.

Moreover, the government will probably dispense with or, at least, limit widespread automatic indexation in several sectors of the economy. This practice is to be found in a number of areas: in a large variety of appropriations on public budgets, in agricultural price controls, in wage settlements and in pricing in many parts of the business sector. "The aim of this de-indexing is to break inflationary expectation," Mr. Sahlman said.

One new development that may upset the government's calculations is the decision made in August by the Trade Union Confederation to dispense with centralized wage negotiations for blue-collar workers on the private Swedish labor market next year. The move, which upsets a tradition practiced for more than 40 years and which became known as the Swedish Model — synonymous with harmonious labor and industrial relations — could have serious repercussions on the government's objective to keep wages down and control inflation.

On the plus side, Sweden's leading exporters have helped to boost the trade surplus in the first seven months of this year to more than 10 billion kronor from 4.6 billion kronor in the comparable 1982 period. In volume terms, exports were up about 10 percent and imports 3 percent.

Allowing for seasonal factors, which would have a negative impact on the trade balance in the latter stages of the year, independent economists forecast that Sweden will still record a surplus in the region of 5 billion kronor for the whole of 1983. This compares with the government's assessment of a balanced trade account. "The picture is clearly better than we anticipated as late as the Revised Budget Bill of last April," Mr. Sahlman said.

Two major obstacles on the path to full economic recovery remain. The budget deficit for this year is estimated at 92 billion kronor, which in real terms is little changed from last year's figure. Public expenditure contin-

ues to exert a heavy drain on the government's resources, with the present administration reluctant to prune the welfare state that has made Sweden the envy of the world.

Part of the deficit problem is the huge national debt, forecast for this year at more than 55 billion kronor. If this growth trend persists, the government expects that the corresponding figure for 1987 would amount to about 90 billion kronor, or 75 percent of the budget deficit in that year. The debt burden is compounded by heavy interest. A government survey showed that the book value of the national debt rose dramatically in the late 1970s and early 1980s. As a share of the gross domestic product it has risen from slightly more than 20 percent at the start of the 1970s to about 61 percent at the end of 1982.

If this trend persists and, in spite of the export boom, public and private expenditure is not brought down to more manageable levels, several economists predict that the current-account deficit, currently projected at 18.8 billion kronor for 1983, will continue to widen, mainly due to the cost of servicing Sweden's foreign debt, interest on which rose substantially as a result of the devalued krona in relation to major leading currencies, such as the dollar and the Deutsche mark, prompting speculation of a possible revaluation of the krona early next year.

—MICHAEL METCALFE

## Finland Sustains Steady Growth

HELSINKI — Finland, Europe's fifth-largest country but with a population of only 4.5 million, has turned in a creditable record of financial and industrial achievement at a time of international recession.

"Finland has been able to sustain quite a strong growth, even through 1982, despite the fact that the OECD countries had a negative growth," said Pertti Sorri, head of the Finance Ministry's Economic Department.

After high growth in 1979 and 1980, the Finnish economy slowed. But economic activity had begun to pick up again as early as the latter half of last year. The Organization for Economic Cooperation and Development estimated that Finland's gross domestic product rose 1.3 percent in 1982.

The weakness of the country's export markets was to some extent counteracted by a growth in domestic demand, resulting from a relatively expansive monetary and fiscal policy since 1981. "I think Finland has been the only country in Western Europe to have had room to maneuver in fiscal policies, because the state debt is still quite low," said Mr. Sorri.

In order to maintain the international competitiveness of Finnish industry, the market was devalued in two stages by a total of 9.6 percent against a basket of currencies last October. The realignment, brought on in part by Sweden's 16-percent currency devaluation, halted the deceleration of inflation. In April 1983, consumer prices were rising at a year-on-year rate of 8.1 percent, which is close to the European average. Monetary policy has been gradually tightened during 1983 in order to curb inflationary pressures, said Finland's central bank governor, Rolf Kullberg.

Reflecting OECD market weakness, a turnaround in imports and increased foreign debt servicing, Finland's current account deficit rose to 2 percent of GDP last year, or about 4.5 billion markka, and is expected to be about 2.5 percent this year. One of the main priorities of the Social Democratic-led coalition government of Kalevi Sorri will be to curb the widening deficit. "It has started to worry us somewhat," said Pertti Sorri, who is the prime minister's brother.

Next year's budget details, which were being worked on by the coalition partners this month, September will reflect moves to control inflation and the current account shortfall, including a general tightening up in fiscal policies, government expenditure growth and indirect taxation.

The government expects to bolster domestic demand and have weakened state finances, but by international standards public debt is still modest. Gross government debt at the end of 1982 was close to 13 percent of GDP. The net financing requirement of the central government has hovered around 2 percent of GDP during recent years.

Last year the state's gross borrowing amounted to \$1.5 billion, of which slightly more than half was taken up abroad. The OECD reported: "A moderately stimulative stance of fiscal policy, together with the operation of automatic stabilizers, has resulted in the general government sector becoming a net borrower in 1982, for the first time in the post-war period."

This year the borrowing requirement has increased slightly, partly because of the economic policies in force, and amounts to about \$1.9 billion, of which slightly less than half will be raised on international markets. The government expects the state's borrowing requirement to remain at this level next year.

Slow growth in the industrial sectors brought with it a deterioration in employment, though growth in services compensated to some extent for job losses in manufacturing and construction. The unemployment rate was about 6 percent in 1982 and is expected to be about the same this year.

The government predicts that the current modest recovery will continue throughout 1984, aided by buoyant, though slowing, public expenditure growth. Growth in private consumption is expected to slow this year as the rate of disposable income growth decelerates. Business confidence has shown some signs of gaining strength, as the effects of the devaluation began to bite.

Merchandise exports to OECD member countries are expected to grow relatively fast, with some gain in market shares projected. But total exports will likely suffer from reduced Soviet demand owing to the decline in oil prices and the large Finnish surplus on the [Soviet-Finnish] bilateral clearing account.

The main agreements concluded with workers this year are expected to raise wages by about 5.5 percent. Taking account of wage drift and carryover from earlier agreements, average wages may rise 9 to 10 percent this year and next. One foreseeable problem for the government, once it puts its tighter fiscal and monetary policy into effect, will be higher wage claims by trade unions seeking to benefit from the improved corporate profits resulting from the devaluation.

—MICHAEL METCALFE

## Record Prices and Turnover Boost Stock Market Investment

STOCKHOLM — Stock markets of the Nordic countries, until recently confined to the backwaters of international capital, have in the last three years joined the ranks of the world's leading exchanges. The Nordic countries are experiencing an unprecedented surge in investor activity, with turnover and prices at record levels.

The pace of trading shows few signs of relenting. The Stockholm stock exchange, where growth has been the strongest, has seen share values grow by 57 percent in the first seven months of 1983, surpassing the 35 percent for all of 1982. Bengt Grönqvist, the president of the exchange, said that if turnover continued at this speed one could expect a turnover of 90 billion kronor this year, rivaling — and perhaps outpacing — that of the Amsterdam, Hong Kong and Paris exchanges.

According to analysts, developments on the Stockholm, Oslo and Copenhagen markets in the early part of this year have put these at the top of the world's exchange price increases.

The total share index of the Oslo exchange rose by 55 percent in the first five months, while the comparative increase was 48 percent in Stockholm and 45 percent in Copenhagen.

The factors behind the surge are numerous and often difficult to pin down.

Lars Bredin, vice president of the Stockholm exchange, attributed the exchange's boom to the introduction in 1978 of tax-sheltered mutual funds.

The so-called share-saving funds attracted the general public because they carried a 30-percent tax rebate for investors, now reduced to 20 percent by the Palme government.

Mr. Bredin said that these funds were expected to put about 200 million kronor of fresh capital into the exchange each month.

Another factor in the Stockholm success story is the sharp increase in interest from abroad.

Large private and institutional investors in the United States, Britain and Switzerland have injected the equivalent of 5 billion kronor of funds into the market so far this year, compared with 3.8 billion kronor for the whole of 1982. "Foreign gross-scale engagement is on a level with share-saving funds, this is of large psychological importance to the bourse and influences even Swedish buying interest," said Björn Karlén of the Swedish Shareholders' Association.

Foreign investor interest was spurred by the government's 16-percent krona devaluation last October, which is boosting corporate profitability and helping to make Swedish company shares more attractive than their counterparts on the London or New York markets. The improved economic outlook and profitability have encouraged more than 20 new Swedish firms to

seek share listings this year as well as generating more than 3.5 billion kronor in new share issues.

"The bourse has finally begun to function as a source for risk capital," said Erik Asbrink, an undersecretary at the Finance Ministry.

Moreover, an increasing number of Swedish corporations have taken advantage of a steady liberalization in restrictions on the sale and issue of shares to foreigners to boost cross-border capital formation. In the second quarter of this year alone, five Swedish corporations — including such brand names as Volvo and Ericsson — raised the equivalent of 2.8 billion kronor in rights issues in London and New York. All sought and obtained permission to sell specified number of shares abroad without recourse to

the "switch" requirement that the equal amount of Swedish shares be brought back into Sweden.

Brokers in Stockholm expect that the trend of Swedish multinationals going abroad to raise funds to expand their overseas operations would continue, with a new wave of Swedish corporate share issues on foreign markets predicted for this autumn.

The run could turn into a stampede, several analysts said, if government plans to introduce the so-called "wage-warmer funds" — collectively controlled regional funds to buy into industry — become a reality in 1984.

Other analysts were more phlegmatic, noting that investors had already discounted the plan and equating the funds with the share-saving variety. They also said that

other institutional investors were buying shares on an ordered and steady basis. "The coming months will be particularly important for the Stockholm stock exchange," said Göran Pierre, an investment adviser at the state-owned PK-Banken, Sweden's state-owned bank.

The government is expected to decide whether the tax incentives for share-saving funds will remain in force beyond 1983, whether the number of new firms seeking a listing will continue to swell and whether the existing demand for fresh capital raised through new share issues will prevail, he said.

Of the other Nordic exchanges, Oslo is enjoying a boom year, its activity stimulated by a Conservative-led government, which since taking office in 1981 has intro-

duced its own version of the Swedish share-saving plan, reduced taxation on dividends and lowered interest rates to spur industrial activity. There are plans to introduce a new exchange for small and medium companies of the risk-capital variety, to run concurrently with the old, larger exchange, where 120 companies are listed.

The Copenhagen exchange is beginning to spark more investor interest than in previous years, when it was dwarfed by the bond market, as a greater number of Danish firms seek share listings and the improved economic climate and the stable Danish krona increase corporate profitability.

Egon Jensen, head of Copenhagen Handelsbanken's foreign investment division, sees future liber-

alization of existing restrictions on the individual Dane's access to foreign equity markets and on foreign companies going to the Copenhagen market to issue equity capital as a major factor in promoting the market. "These restrictions are still in force but we have some reason to believe that the central bank is going to liberalize these areas," he said.

The Helsinki exchange, while much smaller than its Nordic counterparts, has also experienced something of a mini-boom, spurred by last October's devaluation of the markka and signs of an improvement in export competitiveness. Turnover reached a record 2.7 billion markka last year, while prices surged by more than 40 percent.

—MICHAEL METCALFE

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VALIN POLLIN



## NORDIC BANKING AND FINANCE

## Iceland Is Hurt by Drop in Fish Catch

By Björn Matthiasson

REYKJAVIK — For many years the Icelandic economy was unlike any other in Europe. Since the end of World War II, there has always been full employment, income and output have been higher than elsewhere in Western Europe, and inflation has been very high.

Yet, living standards in this nation of 235,000 people have been on a par with some of the richest countries in Europe, despite the difficulties of oil price increases. From 1976 to 1981, real gross national product growth averaged 3.9 percent a year, the current account was in good shape and unemployment never rose above 1 percent. Inflation, however, remained at about 50 to 60 percent.

Recession has continued over the last two years, mostly because of a downswing in the fish catch, the mainstay of the economy, constituting about 75 percent of exports. The total catch declined from 1.4 million tons in 1981 to 800,000 tons in 1982, mostly because of a ban on capelin fishing for conservation reasons. Capelin is a herring-size fish of the salmon family that has been caught in great quantities in recent years for reduction into oil and meal, but catches have exceeded the reproductive capacity of the stock. A halt to further fishing had to be called in 1982, after a catch of 600,000 tons in 1981. The ban is expected to be eased soon.

The catch of whitefish — cod, haddock and similar species — is all the more important, since it is far more valuable than capelin.

lin. After the extension of Iceland's fishing limits to 200 miles in 1975, this part of the catch increased rapidly, peaking at 715,000 tons in 1981. In 1982, it fell to 689,000 tons, and in the first half of 1983 it fell by a further 11 percent from the first half of the previous year.

This downturn has had a profound impact upon exports and national income. In 1982, the downturn was aggravated by a slump in the markets for the nation's major industrial exports, aluminum and ferrosilicon, although this year they have improved substantially.

Exports are expected to increase by about 18 percent in 1983, but that will not compensate for the 20-percent drop in 1982. The balance of payments, which showed a deficit of \$248 million in 1982, equivalent to 10 percent of the gross national product, is expected to drop to about 2 to 3 percent of GNP in 1983, partly because of improved exports and severe austerity measures taken by the government.

Parliamentary elections last spring resulted in the resignation of the leftist government of the People's Alliance, the Progressives and a splinter group from the Independence Party. It was succeeded by a government of the Progressives and the reunited Independence Party, this time with a decisive conservative undertone. The government came into office at a time when the inflation rate had reached 80 percent.

Immediately upon coming to office, the

government took more drastic measures to combat inflation than have been taken for decades in this country, where inflation has been tolerated with remarkable ease. This sudden spurt in the inflation rate was in part fueled by the practice of compensating all wages for price increases every three months, thus creating a vicious wage-price spiral. The government had no other choice than to sever the wage-price linkage, with the result that the inflation rate is already declining dramatically and is expected to reach 20 to 30 percent at the end of this year.

This has meant, however, that prices are rising while wages are regulated by law and kept very limited. Real wages are, therefore, declining considerably, but this decline has been accepted with surprising equanimity by the labor unions, even if they are technically prevented from free collective bargaining. Altogether, it is forecast that real disposable personal incomes will fall by 14 percent between 1982 and 1983.

The decline in real wages will help reduce private consumption, which was necessary to bring national expenditure closer into balance with output. Official forecasts indicate that real GNP may drop by as much as 6 percent in 1983, after a 2-percent decline in 1982. The government's austerity measures — as well as the economic contraction itself — are expected to lead to a drop of about 11.5 percent in national expenditure in real terms, far larger than the drop in production.

The difference will be reflected in an improved balance of payments and a reduced need for foreign capital inflows.

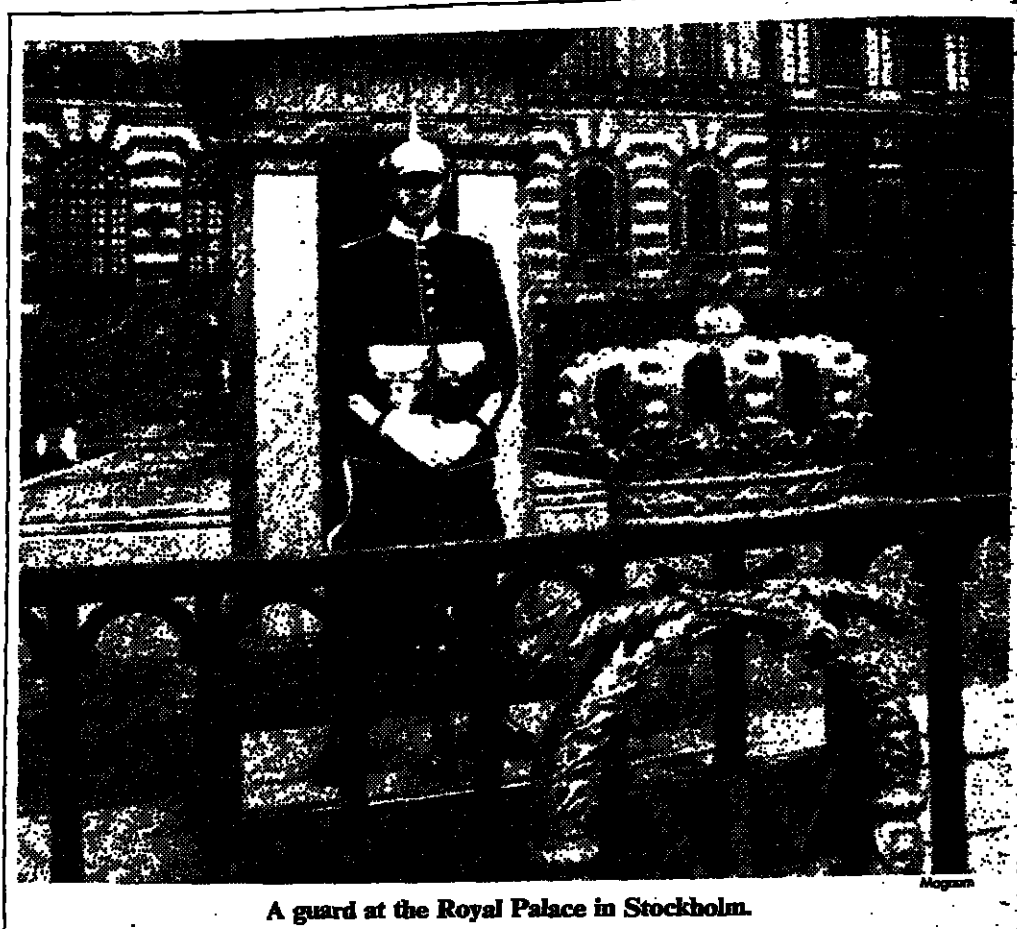
Official forecasts for 1984 have not yet been published, but the general outlook is that the economy may slowly come out of recession in that year. Much will depend on whether the fish catch improves and on what happens to the country's main industrial products in international markets. The outlook is promising, since fish catches could improve. Moreover, world market prices for fish products and industrial products have risen in recent months and could continue to do so with the improved world economic climate.

The new government has also adopted a policy of inviting foreign investment into the country that would make use of its vast geothermal and hydro-energy resources.

It has taken the first step to settle the previous government's long-standing dispute with Alusuisse, the sole owner of an 80,000-ton-a-year smelter in Iceland.

The dispute was over a new power price, and it was agreed as a first step to increase the price of electricity to the plant from 6.5 mills to 10 mills (1 mill is the equivalent of 1 U.S. cent) a kilowatt-hour.

This step paves the way for further investments in the aluminum industry and signals the government's intent to bring greater emphasis to power-intensive manufacturing in the future.



A guard at the Royal Palace in Stockholm.

## Foreign Exchange Markets: A Preference for Fixed Rates

STOCKHOLM — In the 12 months since Sweden's Social Democratic government devalued the krona by 16 percent and, in the process, dealt a severe blow to Nordic currency cooperation, an aura of stability has returned to foreign-exchange policy in the region. But the turbulence of last autumn, during which three of the five Nordic countries had to resort to devaluation to revive their respective economies, has left lingering doubts about foreign-exchange management in the area.

The Nordic countries have a preference for fixed exchange rates, arguing that their small open economies with large foreign trade relative to the size of their industrial base are more susceptible to the sharper fluctuations of floating exchange rates. Since the late 1970s, Finland, Norway and Sweden have adopted trade-weighted currency baskets as a tool to determine the external values of their units. The system, though subject to criticism at times, has on the whole been regarded as useful to small coun-

tries with large foreign trade volumes. The baskets have combined the merits of a relatively stable currency index with the advantages of a degree of flexibility in regular small adjustments to the trade weightings of the composite foreign currencies represented in each of the baskets.

Denmark, as the only Nordic member of the EC, has preferred to align its currency within the intricacies of the European Monetary System, benefiting — but also suffering — from the strength of the Deutsche mark. After the breakdown of the Bretton Woods fixed exchange-rate system, Norway and Sweden joined the European "snake," a forerunner of the EMS, but eventually left and resorted to the basket system in 1977 and 1978.

Last year's spate of devaluations, which could be diagnosed as a symptom of the deep-rooted malaise of inflation within the Nordic countries, is seen by many Nordic bankers and officials as the culmination — and perhaps the end — of the era of using currency devalu-

tions as a policy tool. "We are through with devaluing," Swedish Finance Minister Kjell-Olof Feldt has been quoted as saying, suggesting that henceforth Sweden should aim for revaluations to fend off high, imported inflation rates. In Helsinki, Finnish government officials said that administrations were hesitant about realignment, preferring more flexible domestic interest rates to steer economic activity and monetary developments.

In Copenhagen, Jan Raffel, assistant general manager and foreign-exchange expert of Copenhagen Handelsbank, said: "The long era of devaluation policy, as pursued by successive Danish governments, has clearly come to an end." Since coming to power a year ago, the four-party center-right coalition of Denmark's Poul Schlüter has firmly repudiated devaluation, preferring to defend its currency in times of crisis through the use of the central bank's foreign-exchange reserves. The result has been a more stable Danish krone than in previous years, which has

helped to improve the competitiveness of Denmark's exporting industries and to build solid foundations for economic recovery.

In the case of Sweden, successive governments used devaluation as a tool to beef up industry's exporting power, resulting in an effective devaluation of the krona of 45 percent since 1977. If that policy is now at an end, as Mr. Feldt suggested, what are the alternatives? Does it finally mean joining the EMS to peg the krona more closely to a strong Deutsche mark?

The attempt to stabilize the krona by joining the "snake," which essentially meant pegging it to the mark, was not successful. Instead, the basket was created. The dollar was given a double weighting on the assumption it would continue to weaken. The premise was inaccurate. In 1980, the dollar began to strengthen again, Sweden was unable to keep up, and in slightly more than a year it devalued by 24 percent against its basket.

The appreciation of the dollar was not the only reason for the

devaluations; it merely exacerbated Sweden's difficulty in maintaining competitiveness in relation to its major trading partners in Western Europe. The same argument applies in Norway's case, where the strengthening dollar forced the Norwegian krone up to levels where exporters could not compete with cheaper prices from elsewhere.

In August, the central bank reduced the weighting of the dollar in the basket from 25 percent to 11 percent and effectively devalued the krone in two steps by a total of about 6.5 percent.

There is a growing feeling among bankers that both Norway and Sweden should enter the EMS or, at least, be associated with the system in some form or another. Commercial bankers in the Nordic capitals said that such a membership or association would import greater stability into the two countries' respective economies, help to curb inflation and impose a greater discipline in economic and monetary management.

But several quarters reject these arguments. In Stockholm, the new governor of the central bank, Bengt Dennis, said: "We greatly appreciate the European Monetary System; it gives stability to the mar-

kets. We are not in a position ourselves to join and the prime minister said in Brussels this spring that we have to put our own house in order before we can contemplate joining or discussing any closer cooperation with the system." Sweden has imposed its own discipline, which will entail pursuing a restrictive monetary policy in order to curb an outbreak in inflation sparked by the rise in the costs of imports following the devaluation.

The Finnish authorities enjoy the most complex and sophisticated basket system of the three Nordic exponents. The Fim were the first to use the concept, first on an informal basis in 1972, then officially in 1977. The weightings are adjusted on a quarterly basis when the latest trade figures are in, whereas in Sweden's case, the authorities adjust once a year. Finland, resorted to a market devaluation, totalling 9.6 percent last October.

A special characteristic of the Finnish basket is the importance attached to the Soviet ruble in the trade-weighted index, where it occupies a weighting of 24.5, compared with the dollar's 8.8 and the Deutsche mark's 13.3. The ruble's importance lies in the bilateral trade agreements between Finland

## CONTRIBUTORS

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and the Soviet Union, and permits some leeway by the authorities in balancing trade and, indirectly, currency fluctuations, in its relations with Western and Eastern European trading partners.

The governor of the Finnish central bank, Rolf Kullberg, is entirely satisfied with the existing basket arrangement and sees no reason to change its overall composition, a view shared by Mr. Dennis in the case of Sweden's basket. "The conclusion is in the central bank that we are happy in the way the basket is composed," Mr. Dennis said.

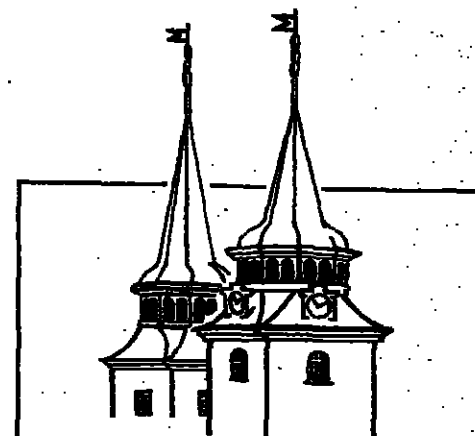
The governor of the Danish cen-

tral bank, Erik Hoffmeyer, understood the preference of its Nordic neighbors for a basket system but said that the EMS link was the most beneficial in Denmark's case. "From the Danish point of view, we have benefited very much from EMS membership," he said. The seven adjustments that Denmark has undertaken since the EMS began in 1979 has helped to depreciate the Danish krone against the Deutsche mark and, in so doing, has bolstered exporting competitiveness while keeping inflation within manageable limits.

—MICHAEL METCALFE

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## Savings Bank Liberalization In Denmark Spurs Growth

COPENHAGEN — The Danish Bank Reform of 1974 allowed savings banks to operate simultaneously as traditional savings banks and as commercial banks, permitting them for the first time to enter the international money and capital markets. This streamlined banking in Denmark, forming the basis for the steady growth of the nation's 150 savings banks.

This liberalization has been particularly advantageous to Denmark's biggest group of savings banks, the Sammenlittede Danske Sparekasser, known as the SDS, formed in 1973 and consisting of three groups of local savings banks covering Copenhagen and the island of Zealand; the islands of Falster and East Lolland in the south; and the middle and south of Jutland in the west — areas in which 75 percent of private business is located.

As a result of the reform, SDS was able to gain access to new markets in such fields as cash credit and risk capital. Today, the business sector accounts for almost half of SDS loan portfolios, the group being particularly predominant in the farming and building areas. In addition, it has a 20-percent share of the private household market in checking accounts. (In Denmark, all banks accept, without charge, personal checks issued by other banks up to a guaranteed 500 kroner, which probably accounts for the comparatively slow growth of credit cards in the country.)

The SDS group has an elected 189-member board of representatives and a 10-member board of directors. Its profits — after allowances for growth in capital — go to charity (15 million kroner in 1982) and not to shareholders.

Bolstered by falling domestic interest rates, the group's result for 1982 showed a net profit of 268 million kroner, against 72 million kroner in 1981, its balance appreciating by 10 percent to 33 billion kroner. SDS is the biggest savings bank in Scandinavia and, if guaranteed liabilities are disregarded, it ranks overall as the third-largest bank in Denmark, behind the leading commercial banks, Handelsbanken and Den Danske Bank. Its nearest competitor, Blikuben, is two-thirds its size and has only just started foreign operations. Two other groupings, in south and north Jutland, are even smaller.

If SDS growth at home has been impressive — there are 410 branches — its overseas expansion has been even more dramatic. Its share of commercial payments to and from foreign countries handled

by SDS' foreign department has tripled since the department's inception in 1977, with the group handling more than 6 percent of all commercial transactions between Denmark and foreign countries last year. (Until 1977, its foreign business had been channeled through a correspondent bank, Fællesbanken, of which SDS is a major shareholder.)

In 1979, SDS opened a "nameplate" branch in the Cayman Islands and in 1981 finally established itself in London after purchasing a 25-percent share in London Interstate Bank, the first instance ever of a savings bank buying shares in a commercial bank. The other equal-partners shareholders in LIB are Göteborgs, from Sweden, and two U.S. banks, Maryland National Bank and the Indiana National Bank. LIB had a £155-million balance for 1982-1983, with net profits of \$926,000 (pretax profits having increased by an average 33 percent over the last 4 years).

SDS is also a member of an important new Danish banking consortium comprising Andelsbanken, Danesbank, Provinsbanken and Fællesbanken, which was formed in 1980 to negotiate foreign loans to finance Danish North Sea gas and other major municipal power and heating projects.

The big Danish commercial banks were never unduly worried about the potential threat of the savings banks to their monopoly. One of their major concerns was, however, that the bank reform should ensure that savings and commercial banks' net capital requirements should be identical; that is, at least 8 percent of debt and guarantee engagements and not, respectively, 4 and 10 percent as before, a provision duly set down in the legislation. More important was the commercial banks' insistence that the savings banks should be subject to the same corporate taxation (currently 40 percent) as themselves.

Statistics show that the entrance of the savings banks into the conventional banking scene, while affording the savings banks significant inroads and profit, has not dislodged the commercial banks from their previous position of dominance. The savings banks' share of the domestic loan market has remained unchanged at 50 percent of that of the commercial banks since 1975, as has their share of the domestic checking-accounts market.

—CHRISTOPHER FOLLETT

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مركز من الأخبار











## BUSINESS BRIEFS

### British Government Stands to Gain \$565.5 Million on Sale of BP Shares

LONDON (AP) — The sale of 130 million government-owned shares in British Petroleum will bring the government \$565.5 million (\$849 million), the Bank of England announced Monday.

The shares, offered for sale by tender with a \$4.05 minimum price, will go for \$4.35 each, a "stalking price" 5 pence higher than forecasts by investment firms, when the offering sold out in 60 seconds. Investors said the high price was a sign of confidence in BP.

The Bank of England said 79,730 applications at or above the striking price were received for 171,432,750 shares.

The sale, announced in July, was part of a series of measures by Prime Minister Margaret Thatcher's Conservative government to make up for overvalued. The government stake in BP has fallen from more than 50 percent to less than 33 percent in four years.

### Kuwait Warns OPEC to Heed Quotas

KUWAIT (AP) — Sheikh Ali Khalifa al-Sabah, Kuwait's oil minister, warned OPEC states Monday against exploiting the relative stability of the world oil market by increasing output and said OPEC's production ceiling should not be raised "at least till the end of the last quarter of this year."

"Any increase in production will spur consumer states to stockpiling," Sheikh Ali told the newspaper al-Qabas. "This in turn would lead to a fall in the oil price," he said. He said he did not know any of the 13 OPEC states of overproduction, and he said there was any trend within OPEC to raise production.

Low demand forced the Organization of Petroleum Exporting Countries to fix production quotas last month for its member states totaling 17.5 million barrels a day. At the same time, OPEC cut its reference price \$5 to \$29 a barrel.

### Turkey Orders Small Bank Takeover

ISTANBUL (Reuters) — The Finance Ministry has ordered the takeover of a small bank, Isci Kredi Bankasi, officials of the bank said Monday. They said the ministry ordered one of the country's largest banks, Turkiye Is Bankasi, to take over and guarantee the deposits of Isci Kredi.

A law that went into effect in July empowers the Finance Ministry to bring troubled banks under ministry control or to order a takeover by another bank.

Turkiye Is Bankasi, which is 80 percent state-owned, will prepare a report for the ministry within two weeks on the future of Isci Kredi, whose board has been dissolved, the officials said.

### U.S. Steel Not Hopeful on U.K. Deal

PITTSBURGH (AP) — Thomas C. Graham, vice chairman of U.S. Steel Corp., said Monday that chances were "less than 50-50" for an agreement with British Steel for a joint operating project at U.S. Steel's Fairless Works in Pennsylvania.

Mr. Graham, in general, seemed to be in a pessimistic mood. He said negotiations were continuing with British Steel on a plan to import semi-finished slab steel from Scotland for finishing at Fairless.

The United Steelworkers of America union strongly opposes the plan. Mr. Graham said U.S. Steel would work with a union task force looking into alternatives for the Fairless Works plant.

### Brook Urges Action on Protectionism

MEECH LAKE, Quebec (AP) — Specific action is required to control the growth of protectionism, U.S. Trade Representative William E. Brock said Monday. But he did not spell out what action he might propose during a two-day meeting with Canadian, Japanese and European officials at Meach Lake, a government retreat north of Ottawa.

Mr. Brock said the objective of the informal meeting of trade ministers was to begin turning into action the commitment to liberalize world trade that was made in June by leaders of the seven major industrialized nations in Williamsburg, Virginia.

He said, however, that he did not expect anything concrete to result from his talks with Gerald Regan of Canada, Willem Hafkamp of the European Community, and Sosuke Uno of Japan.

### Kohlberg Kravis Raises Bid for HMW

STAMFORD, Connecticut (Reuters) — HMW Industries Inc. and Kohlberg Kravis Roberts & Co. said Monday that the merger terms between HMW and companies controlled by Kohlberg Kravis had been amended. Under the new accord, Kohlberg Kravis would pay \$44 for each HMW share, up from the \$40 agreed previously. HMW said its board unanimously approved the amendment, giving the transaction a value of more than \$70 million.

Kohlberg Kravis also has agreed to surrender options to purchase up to 1.3 million HMW treasury shares at \$40 apiece, the companies said. HMW has about 1.6 million common shares outstanding.

Clabir Corp. has proposed a two-step merger with HMW, the first step of which calls for it to purchase one million HMW common shares at \$43 a share. Earlier this month Clabir sued in federal court to void the options granted to Kohlberg Kravis by HMW. HMW has resisted the Clabir bid.

### ACF Says Talks With Icahn Faltering

NEW YORK (AP) — ACF Industries Inc. said Monday that it had been unable to reach agreement concerning the company's possible acquisition by a New York investment group headed by Carl Icahn.

ACF, a leading builder and lessor of rail freight cars, also said that "several people" had indicated interest in proposing a leveraged buyout of ACF and the company was discussing a transaction that would be acceptable to a nonmanagement, independent committee of the ACF board.

### U.K. Trade Gap Slimmed in Month

LONDON (AP) — Britain had a trade deficit of £138 million (\$207 million) in August after a £350-million deficit in July, the Department of Trade and Industry said Monday.

The current account, which includes trade in merchandise and non-merchandise items, had a £22 million surplus in August in contrast to July's £190 million deficit. The July deficit was revised from £100 million.

Exports rose to £4.93 billion in August from £4.75 billion in July while imports fell to £5.06 billion from £5.08 billion, the department said.

### Denmark's Trade Deficit

COPENHAGEN — Denmark's trade deficit narrowed to 400 million kroner (\$42 million) in August from 1.14 billion kroner a year earlier, the Danish Bureau of Statistics said Monday. July's trade deficit was 124 million kroner.

### Gold Options (prices in \$/oz.)

Price	No.	Price	No.
40	17,000-18,000	20	20,000-21,000
45	15,000-16,000	25	18,000-19,000
50	13,000-14,000	30	16,000-17,000
55	11,000-12,000	35	14,000-15,000
60	9,000-10,000	40	12,000-13,000
65	7,000-8,000	45	10,000-11,000
70	5,000-6,000	50	8,000-9,000
75	3,000-4,000	55	6,000-7,000
80	1,000-2,000	60	4,000-5,000

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Tel. 503/224/7227

## Big S. Korean Bank Fires 10 in Scandal

SEOUL — Cho-Hyung Bank, one of South Korea's largest commercial banks, said Monday that it had dismissed 10 employees in connection with a banking scandal involving 167 billion won (\$211 million).

The government prosecution office said it has begun an investigation of the 10 employees as well as two companies after the bank filed complaints.

The bank's president, Lee Hun Seung, said at a news conference that bank auditors had discovered that bank promissory notes totaling 167 billion won were issued illegally by some bank employees between February 1980 and last Sept. 15.

At the end of 1981, Cho-Hyung listed assets of 5.417 trillion won. Mr. Lee said said 47.1 billion won of the illegally issued promissory notes have been cashed, and said his bank will pay against the rest of the notes when they are presented to protect the bank's credibility.

He said his bank has secured 93 billion won of collateral from the two companies involved and was trying to secure more with the help of the tax office.

He disclosed that some bank employees issued promissory notes for the two concerns by using forms and bank seals without authorization from senior executives.

The two companies said to be involved were identified as Yungdong Development Promotion Co. and Shinhan Cast Iron Co., both of Seoul.

The companies had used the promissory notes in purchasing real estate, paying interest for private loans or for operational funds.

Yungdong has 13 subsidiaries and affiliated companies, including So-Il General Construction Co. which, the bank said, has \$247 million dollars of construction projects under way.

So Chang Sun, president of Shinhan, and Park Cheong Ki, one of the 10 bank employees dismissed, left the country at about the time the bank audit started on Sept. 15, Mr. Lee said.

Prosecution officials said nine bank employees were under interrogation, and authorities were looking for one former bank executive and the chairwoman and the president of Yungdong.

Cho-Hyung Bank, which was founded in 1947, is one of the 10 largest banks in South Korea. It has 1.2 million customers and 1.2 billion won in assets.

The bank's assets were 5.417 trillion won at the end of 1981, up from 4.817 trillion won at the end of 1980. Its deposits were 3.817 trillion won at the end of 1981, up from 3.217 trillion won at the end of 1980.

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### Britoil Issues \$100 Million In Eurobonds

LONDON — Britoil is issuing a \$100 million, seven-year, 11 1/2-percent Eurobond at par, lead manager Goldman Sachs & Co. said Monday. The bonds are callable in 1988 at 100 1/2 percent and in 1989 at par.

Sears, Roebuck & Co. is issuing a \$150 million, 10-year, 11 1/2-percent Eurobond at par, lead manager Goldman Sachs & Co. said Monday. The bonds are being issued through an overseas subsidiary and are to be listed in Luxembourg.

Denmark's \$300 million, seven-year floating rate Eurobond that was issued on Friday has been priced at 3/16 point over the six-month London interbank offered rate, lead manager Merrill Lynch Capital Markets said.

Konishiroku Photo Industry Co., which makes Konika cameras among other products, is offering \$50 million of 15-year convertible bonds. The bonds, which mature April 20, 1998, are priced at par and are expected to carry a coupon of 4 percent to 4 1/2 percent. Nomura International is the lead manager.

The company had used the promissory notes in purchasing real estate, paying interest for private loans or for operational funds.

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## Major U.S. Grain Companies Benefit Under Payments-in-Kind Program

By Ward Sinclair

WASHINGTON — The Reagan administration's payment-in-kind program for aiding farmers and reducing crop surpluses also is benefiting the nation's major grain companies, which are receiving handling fees in the form of grain worth millions of dollars.

Big traders such as Cargill Inc., Continental Grain Co. and Bunge Corp. have provided grain to the Department of Agriculture in areas where it does not have enough to fulfill its obligations to farmers under the program, known as PIK.

In return, the government is giving the trading firms, warehouses and grain elevators their own payments-in-kind of wheat, corn and soybeans from federal stockpiles in other areas around the country that have excess supplies.

The Department of Agriculture said the names and fees earned by participating grain companies have not been tabulated.

The privately owned major trading firms offer little additional information. A spokesman for Cargill, for example, which is considered to be the largest, said his firm would not discuss financial aspects of its involvement in PIK.

But officials in government and industry say the companies are likely to end up with grain worth millions of dollars as their fees.

Agriculture Department and industry officials said the alternative to using the grain companies would be shipments of federal surpluses around the country that would cost the Treasury far more than the fees the companies are receiving. But the Agriculture Department acknowledged that it has no figures to support this argument.

Merrill D. Marxman, deputy administrator of the Agricultural Stabilization and Conservation Service, which oversees the PIK program, said the Agriculture Department has not had to transport any grain to satisfy its commitments in grain-deficient areas.

"We put 72.1 million bushels of wheat in the hands of the farmer and we used 5.2 million bushels as payment" to handlers, he said. "Our cost came out to about 25 cents per bushel. It would have cost

us a lot more if we had had to physically move the grain."

An elevator man, Ken Hostetter of Hanover, Pennsylvania, said that large grain-handling firms "will have a big corner on the market." "They'll do real well because of volume. But it's still a good deal for the government, because it's the most cost-efficient way to deliver this PIK grain," he said.

Although the handlers' bids are supposed to include all costs of handling and moving the grain, scattered reports from around the country indicate that some firms have taken from 5 to 10 cents a bushel off the farmers' wheat prices as an additional service charge.

Spokesmen for several national farmers' organizations and small elevator firms said these extra charges apparently have been tacked on in situations where farmers, distant from their PIK supply points, preferred to accept a lower price rather than take possession of their grain and try to sell it elsewhere for higher rates.

Mr. Marxman and an assistant, Alvin L. Krogstad, acknowledged that the Agriculture Department has received complaints from farmers about additional charges. But, they said, the department in each instance has warned suppliers that farmers must be paid the same for their PIK grain as they would get for grain they raised, without deductions for services not provided.

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## BAT INDUSTRIES

Interim Report: Six Months to 30 June 1983

Patrick Sheehy, Chairman, comments:

It is very gratifying that our retailing, paper and other non-tobacco businesses have done so well in this first half of a year in which tobacco profits have been adversely affected, particularly by a price war in Germany and significant weaknesses of currencies in Latin America.

Group turnover in the six months to 30 June 1983, at £5,350 million, is 5 per cent higher than in the comparable period of 1982, pre-tax profit is slightly down at £345 million, but attributable profit is 3 per cent higher at £189 million.

### PROSPECTS

In the second half of this year tobacco profits are expected to be appreciably better than in the first half. However, profits for the full year from this activity will show some reduction in comparison with 1982.

I expect the extremely encouraging improvements in Retailing shown in the first half year in both the US and the UK to continue and that the increase in Retail profits for 1983 on 1982 will be substantial.

Paper in the UK and USA will make further progress. I expect the improvements in profits from Packaging and Printing to continue, particularly as the benefits of rationalisation flow through.















SPORTS

# Australia Wins America's Cup

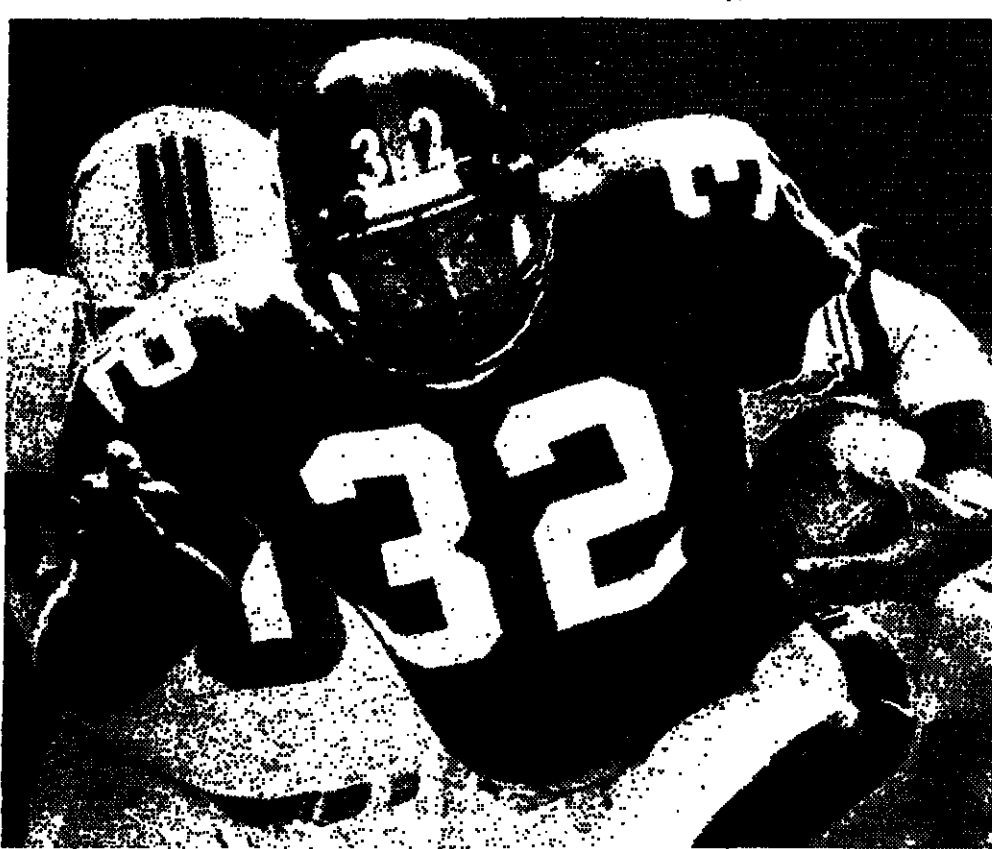
## First Triumph by Challenger In 132 Years of Competition

NEWPORT, Rhode Island — Australia II staged a stunning comeback in the seventh and decisive race Monday and broke the United States' 132-year monopoly on the America's Cup with a historic victory over Liberty.

The foreign challenger with the mysterious winged keel trailed by eight seconds at the start of the race and was in a desperate position. But John Bertrand, skipper of the 33-year-old Australia II, led the team to a dramatic comeback, winning the race by 10 seconds.

The victory was a triumph for the Australian team, which had been underdog favorites. The race was a close contest, with the Australian team trailing by eight seconds at the start. But they managed to overtake the American team, Liberty, in the seventh race.

The victory was a historic moment for Australia, as it was the first time a challenger had won the America's Cup in 132 years. The race was a thrilling contest, with the Australian team trailing by eight seconds at the start. But they managed to overtake the American team, Liberty, in the seventh race.



Franco Harris of Pittsburgh carried for an 11-yard gain that moved him into second place in NFL regular-season career rushing. However, the Steelers lost to New England, 28-23.

# Montana Passes for 3 Touchdowns As 49ers Defeat Falcons, Tyler Hurt

SAN FRANCISCO — Joe Montana passed for three touchdowns and the San Francisco 49ers defeated the Atlanta Falcons 27-17 in a National Football League game Sunday.

There was bad news for the 49ers, however — the loss of Wendell Tyler, one of the leading rushers in the NFL. He suffered a dislocated shoulder in the first period. Atlanta lost one of its offensive stars, the wide receiver Alvin Garrett, who was injured in the first half.

Montana's third scoring pass of the game and 10th of the season was a 1-yard pass to the tight end Brent Core, who scored the first touchdown for the 49ers. Montana also threw a 20-yard touchdown pass to the wide receiver Alvin Garrett in the second quarter.

## NFL Standings

Team	W	L	T	Pct.	PP	PA
American Conference						
Buffalo	2	1	0	.667	48	54
Denver	2	1	0	.667	48	54
Pittsburgh	2	1	0	.667	48	54
Cleveland	2	1	0	.667	48	54
Indianapolis	2	1	0	.667	48	54
Kansas City	2	1	0	.667	48	54
Los Angeles	2	1	0	.667	48	54
Minnesota	2	1	0	.667	48	54
New England	2	1	0	.667	48	54
New York	2	1	0	.667	48	54
Oakland	2	1	0	.667	48	54
San Diego	2	1	0	.667	48	54
Seattle	2	1	0	.667	48	54
St. Louis	2	1	0	.667	48	54
Tampa Bay	2	1	0	.667	48	54
Washington	2	1	0	.667	48	54
West						
Los Angeles	4	0	0	1.000	80	32
Denver	2	2	0	.500	48	54
San Francisco	2	2	0	.500	48	54
Seattle	2	2	0	.500	48	54
Kansas City	1	3	0	.250	48	54
San Diego	1	3	0	.250	48	54
East						
Dallas	4	0	0	1.000	114	80
Washington	2	2	0	.500	48	54
Philadelphia	2	2	0	.500	48	54
N.Y. Giants	2	2	0	.500	48	54
St. Louis	2	2	0	.500	48	54
Central						
Minnesota	3	1	0	.750	83	115
Green Bay	2	2	0	.500	48	54
Chicago	2	2	0	.500	48	54
Indianapolis	2	2	0	.500	48	54
San Francisco	2	2	0	.500	48	54
Atlanta	2	2	0	.500	48	54
Los Angeles	2	2	0	.500	48	54
San Diego	2	2	0	.500	48	54
Seattle	2	2	0	.500	48	54
St. Louis	2	2	0	.500	48	54
Tampa Bay	2	2	0	.500	48	54
Washington	2	2	0	.500	48	54

## CFL Standings

Team	W	L	T	Pct.	PP	PA
Seattle Seahawks	4	0	0	1.000	114	80
San Francisco 49ers	2	2	0	.500	48	54
Los Angeles Rams	2	2	0	.500	48	54
San Diego Chargers	2	2	0	.500	48	54
Atlanta Falcons	2	2	0	.500	48	54
Washington Redskins	2	2	0	.500	48	54
Philadelphia Eagles	2	2	0	.500	48	54
San Francisco 49ers	2	2	0	.500	48	54
Los Angeles Rams	2	2	0	.500	48	54
San Diego Chargers	2	2	0	.500	48	54
Atlanta Falcons	2	2	0	.500	48	54
Washington Redskins	2	2	0	.500	48	54
Philadelphia Eagles	2	2	0	.500	48	54

# Orioles Capture Division Title With 5-1 Victory Over Brewers

MILWAUKEE — Jim Dwyer and Joe Nolan homered and Storm Davis and Tippy Martinez combined on a six-hitter Sunday as the Baltimore Orioles beat the Milwaukee Brewers, 5-1, to clinch the American League East title.

The Orioles will play the Chicago White Sox, the champions of the



Baltimore's Sammy Stewart had his foul-weather gear, but all was sunny in the Orioles' locker room after they clinched the AL East title. Bill Swaggerty did the pouring.

## BASEBALL ROUNDUP

West, in a best-of-five series for the American League pennant beginning Oct. 5 in Baltimore.

"It's a great feeling," said Baltimore's designated hitter, Ken Singleton. "Some people say there's Orioles magic. But it's not magic. We just have an awful lot of talent and ability here."

The Orioles took a 3-0 lead in the third inning when Rich Dauer and Al Bumbry singled off Chuck Porter (6-9) and Dwyer followed with his eighth home run of the season.

Baltimore added two runs in the fourth when Singleton tripled and Nolan hit his fifth homer.

Milwaukee scored in the sixth when Bill Schroeder singled, went to second on a passed ball and scored on a single by Robin Yount.

Davis (13-6) went six innings before giving way to Martinez, who held the Brewers to three hits over the final three innings.

Figures 3, Red Sox 2  
In Detroit, Kirk Gibson's home run and Alan Trammell's sacrifice fly led the Tigers to a 3-2 victory over Boston.

Twins 7, Royals 1  
In Kansas City, Missouri, Tom Brunansky knocked in three runs with a double and an inside-the-park homer as Minnesota beat the Royals, 7-1.

Yankees 6, Indians 4  
In New York, John Montefusco pitched a seven-hitter over 7 1/2 innings and Roy Smalley drove in three runs to lead the Yankees to a 6-4 decision over Cleveland.

Mariners 2, Rangers 1  
In Arlington, Texas, Bob Stoddard allowed only five hits in 8 1/2 innings and Darnell Coles singled in a second-inning run as Seattle beat the Rangers, 2-1.

Expos 5, Pirates 3  
In Montreal, Gary Carter drove in two runs with a single and a

## White Sox, Angels 5

In Anaheim, California, Jerry Dybzinski hit a double and two sacrifice flies to drive in three runs in Chicago's 8-5 victory over the Angels. LaMar Hoyt (25-10) won his 12th straight.

Blue Jays, A's 6  
In Oakland, California, Rance Mullins hit a three-run homer in the top of the ninth to rally Toronto over the A's, 6-6.

Phillies 6, Cardinals 5  
In the National League, at St. Louis, Pete Rose's pinch-hit single in the 10th inning gave Philadelphia a 6-5 triumph over the Cardinals. Steve Carlton (19-10) pitched a four-hitter over 7 1/2 innings and gave the Phillies a four-game lead over the Pirates in the NL East with six games left.

Expos 5, Pirates 3  
In Montreal, Gary Carter drove in two runs with a single and a

sacrifice fly and Al Oliver added a two-run single as the Expos beat Pittsburgh, 5-3.

Braves 7, Dodgers 1  
In Atlanta, Glenn Hubbard and Bruce Benedict each had three hits as the Braves defeated Los Angeles, 7-1, to move within 3 1/2 games of the Dodgers in the NL West.

Reds 5, Padres 2  
In Cincinnati, Dan Biliardello and Skeeter Barnes hit back-to-back homers in the second inning as the Reds beat San Diego, 5-2.

Cubs 11, Mets 7  
In Chicago, Larry Bowa went 4-for-4 and scored three runs as the Cubs defeated the Mets, 11-7.

Giants 3, Astros 0  
In Houston, Scott Garretts had a five-hit shutout in his first major-league complete game as San Francisco beat the Astros, 3-0.

## Major League Standings

Team	W	L	T	Pct.	GB
American League					
Baltimore Orioles	88	68	10	.563	0
New York Yankees	88	68	10	.563	0
Los Angeles Angels	88	68	10	.563	0
Chicago White Sox	88	68	10	.563	0
Seattle Mariners	88	68	10	.563	0
San Francisco Giants	88	68	10	.563	0
San Diego Padres	88	68	10	.563	0
Philadelphia Phillies	88	68	10	.563	0
St. Louis Cardinals	88	68	10	.563	0
Atlanta Braves	88	68	10	.563	0
Los Angeles Dodgers	88	68	10	.563	0
San Francisco Giants	88	68	10	.563	0
San Diego Padres	88	68	10	.563	0
Philadelphia Phillies	88	68	10	.563	0
St. Louis Cardinals	88	68	10	.563	0
Atlanta Braves	88	68	10	.563	0
Los Angeles Dodgers	88	68	10	.563	0

## Sunday's Baseball Line Scores

Team	Score	Team	Score
Baltimore Orioles	8-5	Los Angeles Angels	5-6
New York Yankees	6-4	Chicago White Sox	2-1
Seattle Mariners	2-1	San Francisco Giants	5-2
San Diego Padres	1-0	Philadelphia Phillies	6-5
St. Louis Cardinals	5-4	Atlanta Braves	7-1
Los Angeles Dodgers	6-6	San Francisco Giants	11-7
San Diego Padres	5-2	Philadelphia Phillies	3-0
St. Louis Cardinals	5-2	Atlanta Braves	5-3
Los Angeles Dodgers	5-2	San Francisco Giants	3-0

# Caldwell, on Tour Since '74, Finally Takes a PGA Event

ABILENE, Texas — Rex Caldwell finished seven birdies for a 6-under-par 66 on his home course Sunday and surged past Lee Trevino to win a Professional Golfers' Association tournament by one stroke.

Caldwell began his round at par but finished with a 6-under 282 for the victory — his first since joining the PGA Tour in 1974.

the lead at 6-under, shot a final-round 73 to finish second at 283.

Andy Bean and David Graham tied for third at 285. Lyn Lott followed at 286, while Ben Crenshaw, John Cook and Hal Sutton were tied at 287. Hal Irwin was at 288.

Caldwell, 33, who recently moved to Abilene from Tallahassee, Florida, has finished second in four tournaments this year, including the Las Vegas Celebrity Pro-Am last week.

Chicago's quarterback, Vince Evans, engineered two touchdowns in the final period — a 57-yard pass to Willie Gault and an 8-yard run — to send the game into overtime.

Bob Thomas kicked two field goals for the Bears but missed his first extra-point attempt.

In Seattle, Joe Theismann fired three touchdown passes, including ones of 64 yards to Charlie Brown

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